

---

---

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

---

**FORM 10-K**

---

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2020

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-34177



Discovery, Inc.  
(Exact name of Registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**8403 Colesville Road  
Silver Spring, Maryland**  
(Address of principal executive offices)

**35-2333914**

(I.R.S. Employer  
Identification No.)

**20910**  
(Zip Code)

**(240) 662-2000**

(Registrant's telephone number, including area code)

---

**Securities registered pursuant to Section 12(b) of the Act:**

Title of Each Class	Trading Symbols	Name of Each Exchange on Which Registered
Series A Common Stock, par value \$0.01 per share	DISCA	The Nasdaq Global Select Market
Series B Common Stock, par value \$0.01 per share	DISCB	The Nasdaq Global Select Market
Series C Common Stock, par value \$0.01 per share	DISCK	The Nasdaq Global Select Market

**Securities registered pursuant to Section 12(g) of the Act:**  
**None**

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit such files). Yes  No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer" "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.:

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The aggregate market value of voting and non-voting common stock held by non-affiliates of the Registrant computed by reference to the last sales price of such stock, as of the last business day of the Registrant's most recently completed second fiscal quarter, which was June 30, 2020, was approximately \$10 billion.

Total number of shares outstanding of each class of the Registrant's common stock as of February 8, 2021 was:

Series A Common Stock, par value \$0.01 per share	162,490,752
Series B Common Stock, par value \$0.01 per share	6,512,378
Series C Common Stock, par value \$0.01 per share	318,331,065

#### **DOCUMENTS INCORPORATED BY REFERENCE**

Certain information required in Item 10 through Item 14 of Part III of this Annual Report on Form 10-K is incorporated herein by reference to the Registrant's definitive Proxy Statement for its 2021 Annual Meeting of Stockholders, which shall be filed with the Securities and Exchange Commission pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, within 120 days of the Registrant's fiscal year end.

---

**DISCOVERY, INC.**  
**FORM 10-K**  
**TABLE OF CONTENTS**

	<u>Page</u>
<b><u>PART I</u></b>	
<a href="#"><u>ITEM 1. Business.</u></a>	<a href="#"><u>5</u></a>
<a href="#"><u>ITEM 1A. Risk Factors.</u></a>	<a href="#"><u>21</u></a>
<a href="#"><u>ITEM 1B. Unresolved Staff Comments.</u></a>	<a href="#"><u>32</u></a>
<a href="#"><u>ITEM 2. Properties.</u></a>	<a href="#"><u>33</u></a>
<a href="#"><u>ITEM 3. Legal Proceedings.</u></a>	<a href="#"><u>33</u></a>
<a href="#"><u>ITEM 4. Mine Safety Disclosures.</u></a>	<a href="#"><u>33</u></a>
<b><u>PART II</u></b>	
<a href="#"><u>ITEM 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.</u></a>	<a href="#"><u>36</u></a>
<a href="#"><u>ITEM 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.</u></a>	<a href="#"><u>38</u></a>
<a href="#"><u>ITEM 7A. Quantitative and Qualitative Disclosures about Market Risk.</u></a>	<a href="#"><u>57</u></a>
<a href="#"><u>ITEM 8. Financial Statements and Supplementary Data.</u></a>	<a href="#"><u>59</u></a>
<a href="#"><u>ITEM 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.</u></a>	<a href="#"><u>123</u></a>
<a href="#"><u>ITEM 9A. Controls and Procedures.</u></a>	<a href="#"><u>123</u></a>
<a href="#"><u>ITEM 9B. Other Information.</u></a>	<a href="#"><u>123</u></a>
<b><u>PART III</u></b>	
<a href="#"><u>ITEM 10. Directors, Executive Officers and Corporate Governance.</u></a>	<a href="#"><u>123</u></a>
<a href="#"><u>ITEM 11. Executive Compensation.</u></a>	<a href="#"><u>124</u></a>
<a href="#"><u>ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.</u></a>	<a href="#"><u>124</u></a>
<a href="#"><u>ITEM 13. Certain Relationships and Related Transactions, and Director Independence.</u></a>	<a href="#"><u>124</u></a>
<a href="#"><u>ITEM 14. Principal Accountant Fees and Services.</u></a>	<a href="#"><u>124</u></a>
<b><u>PART IV</u></b>	
<a href="#"><u>ITEM 15. Exhibits and Financial Statement Schedules.</u></a>	<a href="#"><u>125</u></a>
<a href="#"><u>ITEM 16. Form 10-K Summary.</u></a>	<a href="#"><u>132</u></a>
<b><u>SIGNATURES</u></b>	<a href="#"><u>133</u></a>

## PART I

### CAUTIONARY NOTE CONCERNING FORWARD-LOOKING STATEMENTS

Certain statements in this Annual Report on Form 10-K constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements regarding our business, marketing and operating strategies, integration of acquired businesses, new service offerings, financial prospects, and anticipated sources and uses of capital. Words such as “anticipate,” “assume,” “believe,” “continue,” “estimate,” “expect,” “forecast,” “future,” “intend,” “plan,” “potential,” “predict,” “project,” “strategy,” “target” and similar terms, and future or conditional tense verbs like “could,” “may,” “might,” “should,” “will” and “would,” among other terms of similar substance used in connection with any discussion of future operating or financial performance identify forward-looking statements. Where, in any forward-looking statement, we express an expectation or belief as to future results or events, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the expectation or belief will result or be accomplished. The following is a list of some, but not all, of the factors that could cause actual results or events to differ materially from those anticipated:

- changes in the distribution and viewing of television programming, including the expanded deployment of personal video recorders, subscription video on demand, internet protocol television, mobile personal devices and personal tablets and their impact on television advertising revenue;
- continued consolidation of distribution customers and production studios;
- a failure to secure affiliate agreements or the renewal of such agreements on less favorable terms;
- rapid technological changes;
- the inability of advertisers or affiliates to remit payment to us in a timely manner or at all;
- general economic and business conditions, including the impact of the ongoing COVID-19 pandemic;
- industry trends, including the timing of, and spending on, feature film, television and television commercial production;
- spending on domestic and foreign television advertising;
- disagreements with our distributors or other business partners over contract interpretation;
- fluctuations in foreign currency exchange rates, political unrest and regulatory changes in international markets;
- market demand for foreign first-run and existing content libraries;
- the regulatory and competitive environment of the industries in which we, and the entities in which we have interests, operate;
- uncertainties inherent in the development of new business lines and business strategies;
- uncertainties regarding the financial performance of our investments in unconsolidated entities;
- our ability to complete, integrate, maintain and obtain the anticipated benefits and synergies from our proposed business combinations and acquisitions, on a timely basis or at all;
- uncertainties associated with product and service development and market acceptance, including the development and provision of programming for new television and telecommunications technologies, and the success of our new discovery+ streaming product;
- future financial performance, including availability, terms, and deployment of capital;
- the ability of suppliers and vendors to deliver products, equipment, software, and services;
- our ability to achieve the efficiencies, savings and other benefits anticipated from our cost-reduction initiatives;
- the outcome of any pending or threatened litigation;
- availability of qualified personnel;
- the possibility or duration of an industry-wide strike or other job action affecting a major entertainment industry union;
- changes in, or failure or inability to comply with, government regulations, including, without limitation, regulations of the Federal Communications Commission (“FCC”) and data privacy regulations and adverse outcomes from regulatory proceedings;
- changes in income taxes due to regulatory changes or changes in our corporate structure;

- changes in the nature of key strategic relationships with partners, distributors and equity method investee partners;
- competitor responses to our products and services and the products and services of the entities in which we have interests;
- threatened or actual cyber or terrorist attacks and military action;
- our level of debt;
- reduced access to capital markets or significant increases in costs to borrow; and
- a reduction of advertising revenue associated with unexpected reductions in the number of subscribers.

These risks have the potential to impact the recoverability of the assets recorded on our balance sheets, including goodwill or other intangibles. Additionally, many of these risks are currently amplified by and may, in the future, continue to be amplified by the prolonged impact of the COVID-19 pandemic. For additional risk factors, refer to Item 1A, "Risk Factors." These forward-looking statements and such risks, uncertainties, and other factors speak only as of the date of this Annual Report on Form 10-K, and we expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement contained herein, to reflect any change in our expectations with regard thereto, or any other change in events, conditions or circumstances on which any such statement is based.

#### **ITEM 1. Business.**

For convenience, the terms "Discovery," the "Company," "we," "us" or "our" are used in this Annual Report on Form 10-K to refer to both Discovery, Inc. and collectively to Discovery, Inc. and one or more of its consolidated subsidiaries, unless the context otherwise requires. On March 6, 2018, the Company acquired Scripps Networks Interactive, Inc. ("Scripps Networks") and changed its name from "Discovery Communications, Inc." to "Discovery, Inc." (See Note 3 to the accompanying consolidated financial statements.)

#### **Impact of COVID-19**

On March 11, 2020, the World Health Organization declared the coronavirus disease 2019 ("COVID-19") outbreak to be a global pandemic. COVID-19 continues to spread throughout the world, and the duration and severity of its effects and associated economic disruption remain uncertain. Restrictions on social and commercial activity in an effort to contain the virus have had, and are expected to continue to have, a significant adverse impact upon many sectors of the U.S. and global economy, including the media industry. We continue to closely monitor the impact of COVID-19 on all aspects of our business and geographies, including the impact on our customers, employees, suppliers, vendors, distribution and advertising partners, production facilities, and various other third parties.

Beginning in the second quarter of 2020, demand for our advertising products and services decreased due to economic disruptions from limitations on social and commercial activity. These economic disruptions and the resulting effect on the Company slightly eased during the second half of 2020, but the pandemic continued to impact demand through the end of 2020 and this decreased demand is expected to continue into 2021. Many of our third-party production partners that were shut down during most of the second quarter of 2020 due to COVID-19 restrictions came back online in the third quarter of 2020 and, as a result, we have incurred additional costs to comply with various governmental regulations and implement certain safety measures for our employees, talent, and partners. Additionally, certain sporting events that we have rights to were cancelled or postponed, thereby eliminating or deferring the related revenues and expenses, including the Tokyo 2020 Olympic Games, which were postponed to 2021. The postponement of the Olympic Games deferred both Olympic-related revenues and significant expenses from fiscal year 2020 to fiscal year 2021.

In response to the impact of the pandemic, we employed and continue to employ innovative production and programming strategies, including producing content filmed by our on-air talent and seeking viewer feedback on which content to air. We also implemented remote work arrangements effective mid-March 2020 and, to date, these arrangements have not materially affected our ability to operate our business.

The effects of the pandemic may have further negative impacts on our financial position, results of operations, and cash flows. However, we are unable to predict the ongoing impact that COVID-19 will have on our financial position, operating results, and cash flows due to numerous uncertainties. The nature and extent of COVID-19's effects on our operations and results will depend on future developments, which are highly uncertain and cannot be predicted, including new information that may emerge concerning the severity and the extent of future surges of COVID-19, vaccine distribution and other actions to contain the virus or treat its impact, among others. We will continue to monitor COVID-19 and its impact on our business results and financial condition.

## OVERVIEW

We are a global media company that provides content across multiple distribution platforms, including linear platforms such as pay-television ("pay-TV"), free-to-air ("FTA") and broadcast television, authenticated GO applications, digital distribution arrangements, content licensing arrangements and direct-to-consumer ("DTC") subscription products. As one of the world's largest pay-TV programmers, we provide original and purchased content and live events to approximately 3.7 billion cumulative subscribers and viewers worldwide through networks that we wholly or partially own. We distribute customized content in the U.S. and over 220 other countries and territories in nearly 50 languages. We have an extensive library of content and own most rights to our content and footage, which enables us to leverage our library to quickly launch brands and services into new markets and on new platforms. Our content can be re-edited and updated in a cost-effective manner to provide topical versions of subject matter that can be utilized around the world on a variety of platforms.

Our content spans genres including survival, natural history, exploration, sports, general entertainment, home, food, travel, heroes, adventure, crime and investigation, health, and kids. Our global portfolio of networks includes prominent nonfiction television brands such as Discovery Channel, our most widely distributed global brand, HGTV, Food Network, TLC, Animal Planet, Investigation Discovery, Travel Channel, Science, and MotorTrend (previously known as Velocity domestically and currently known as Turbo in most international countries). Among other networks in the U.S., Discovery also features two Spanish-language services, Discovery en Español and Discovery Familia. Our international portfolio also includes Eurosport, a leading sports entertainment provider and broadcaster of the Olympic Games (the "Olympics") across Europe (excluding Russia), TVN, a Polish media company, as well as Discovery Kids, a leading children's entertainment brand in Latin America. We participate in joint ventures including Magnolia, the recently formed multi-platform venture with Chip and Joanna Gaines, and Group Nine Media ("Group Nine"), a digital media holding company home to top digital brands including NowThis News, the Dodo, Thrillist, PopSugar, and Seeker. We operate production studios, and prior to the sale of our Education Business in April 2018, we sold curriculum-based education products and services. (See Note 3 to the accompanying consolidated financial statements.)

During the fourth quarter of 2020, we announced the global launch of our aggregated DTC product, discovery+, a non-fiction, real life subscription service. In January 2021, we launched discovery+ in the U.S. across several streaming platforms and entered into a partnership with Verizon, which is offering access to discovery+ for up to 12 months to certain of its customers. The global rollout of discovery+ across more than 25 markets has already begun with the U.K. and Ireland, where we have partnered with Sky, and India. We also have a partnership with Vodafone, which will provide discovery+ to existing Vodafone TV and mobile customers in 12 markets across Europe. Upon launch in the U.S., discovery+ included an extensive content library comprised of more than 55,000 episodes and features a wide array of exclusive, original series from the Discovery portfolio of brands that have a strong leadership position. The service is available with ads or on an ad-free tier, providing Discovery with dual revenue streams.

We aim to generate revenues principally from the sale of advertising on our networks and digital products and from fees charged to distributors that carry our network brands and content, primarily including cable, direct-to-home ("DTH") satellite, telecommunication and digital service providers, as well as through DTC subscription services. Other transactions include affiliate and advertising sales representation services, production studios content development and services content licenses, the licensing of our brands for consumer products, and in 2018, curriculum-based products and services. During 2020, advertising, distribution and other revenues were 52%, 46% and 2%, respectively, of consolidated revenues. No individual customer represented more than 10% of our total consolidated revenues for 2020, 2019 or 2018.

We invest in high-quality content for our networks and brands with the objective of building viewership, optimizing distribution revenue, capturing advertising revenue, and creating or repositioning branded channels and business to sustain long-term growth and occupy a desired content niche with strong consumer appeal. Our strategy is to maximize the distribution, ratings and profit potential of each of our branded networks. In addition to growing distribution and advertising revenues for our branded networks, we have extended content distribution across new platforms, including brand-aligned websites, online streaming, mobile devices, video on demand ("VOD"), and broadband channels, which provide promotional platforms for our television content and serve as additional outlets for advertising and distribution revenue. Audience ratings are a key driver in generating advertising revenue and creating demand on the part of cable television operators, DTH satellite operators, telecommunication service providers, and other content distributors who deliver our content to their customers.

Although we utilize certain brands and content globally, we classify our operations in two reportable segments: U.S. Networks, consisting principally of domestic television networks and digital content services, and International Networks, consisting primarily of international television networks and digital content services. Our segment presentation aligns with our management structure and the financial information management uses to make decisions about operating matters, such as the allocation of resources and business performance assessments. Financial information for our segments and the geographical areas in which we do business is set forth in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 23 to the consolidated financial statements included in Item 8, "Financial Statements and Supplementary Data" in this Annual Report on Form 10-K.

#### Network Brands

Subscriber statistics set forth in this Annual Report on Form 10-K include both wholly-owned networks and networks operated by equity method investees. Domestic subscriber statistics are based on Nielsen Media Research. International subscriber and viewer statistics are derived from internal data coupled with external sources when available. As used herein, a "subscriber" is a single household that receives the applicable network from its cable television operator, DTH satellite operator, telecommunication service provider, or other television provider, including those who receive our networks from pay-TV providers without charge pursuant to various pricing plans that include free periods and/or free carriage. The term "cumulative subscribers" refers to the sum of the total number of subscribers to each of our networks or content services. By way of example, two households that each receive five of our networks from their pay-TV provider represent two subscribers, but 10 cumulative subscribers. The term "viewer" is a single household that receives the signal from one of our networks using the appropriate receiving equipment without a subscription to a pay-TV provider.

Our brands consist of the following:



## Discovery

- Discovery Channel had approximately 86 million subscribers in the U.S. as of December 31, 2020. Discovery Channel and the Discovery HD Showcase brand had approximately 277 million cumulative subscribers and viewers in international markets as of December 31, 2020.
- Discovery Channel is dedicated to creating high-quality, non-fiction content that informs and entertains its viewers about the world in all its wonder, diversity and amazement. The network offers a signature mix of high-end production values and vivid cinematography across genres including science and technology, exploration, adventure, history and in-depth, behind-the-scenes glimpses at the people, places and organizations that shape and share our world.
- In the U.S., Discovery Channel audiences can enjoy their favorite programming anytime, anywhere through the Discovery GO app, which features live and on-demand access.
- Discovery Channel content includes *Gold Rush*, *Naked and Afraid*, *Deadliest Catch*, *Fast N' Loud*, *Street Outlaws*, *Alaskan Bush People*, *Expedition Unknown*, *BattleBots*, *Undercover Billionaire* and *Serengeti*. Discovery Channel is also home to *Shark Week*, the network's long-running annual summer TV event.
- Target viewers are adults aged 25 to 54, particularly men.



- HGTV had approximately 87 million subscribers in the U.S. and approximately 166 million subscribers and viewers in international markets as of December 31, 2020.
- HGTV programming content attracts audiences interested specifically in home/lifestyle related topics, including real estate, renovation, restoration, decorating, interior or landscape design and fantasy lifestyles, as well as docu-series and reality competitions focused on those genres.
- In the U.S., HGTV audiences can enjoy their favorite programming anytime, anywhere through the Discovery GO app, which features live and on-demand access.
- Content on HGTV includes: *Property Brothers*, *Brother vs. Brother*, *Celebrity IOU*, *Flip or Flop*, *Christina on the Coast*, *Flipping 101 with Tarek El Moussa*, *Home Town*, *Good Bones*, *Rock the Block*, *Design Star*, *House Hunters*, and *House Hunters International*.
- Target viewers are women with higher incomes in the 25 to 54 age range.



- The most widely distributed ad-supported cable network in the U.S., Food Network had approximately 87 million subscribers in the U.S. and approximately 113 million subscribers and viewers in international markets as of December 31, 2020.
- Food Network programming content attracts audiences interested in food-related entertainment, including competition and travel, as well as food-related topics such as recipes, food preparation, entertaining, and dining out.
- In the U.S., Food Network audiences can enjoy their favorite programming anytime, anywhere through the Discovery GO app, which features live and on-demand access, as well as on the Food Network Kitchen app.
- Content on Food Network includes primetime series *Beat Bobby Flay*, *Chopped*, *Diners, Drive-ins and Dives*, *The Great Food Truck Race*, *Guy's Grocery Games*, *Worst Cooks in America*, and several seasonal baking championships, as well as daytime series *Barefoot Contessa*, *Giada Entertains*, *Girl Meets Farm*, *Guy's Ranch Kitchen*, *The Kitchen*, *The Pioneer Woman*, *Trisha's Southern Kitchen* and *Valerie's Home Cooking*.
- Target viewers are adults with higher incomes in the 25 to 54 age range, particularly women.



- TLC had approximately 85 million subscribers in the U.S. and 5 million subscribers in Canada that are included in the U.S. Networks segment as of December 31, 2020. TLC content had approximately 356 million cumulative subscribers and viewers in international markets as of December 31, 2020 including the Home & Health, Real Time, and Living brands.
- Offering real-life stories without judgment, TLC shares everyday heart, humor, hope, and human connection with programming genres that include fascinating families, heartwarming transformations and life's milestone moments.
- In the U.S., TLC audiences can enjoy their favorite programming anytime, anywhere through the Discovery GO app, which features live and on-demand access
- Content on TLC includes the *90 Day Fiancé* franchise, *Little People, Big World*, *I Am Jazz* and *Outdaughtered*.
- Target viewers are adults aged 25 to 54, particularly women.



**animal planet**

- Animal Planet had approximately 84 million subscribers in the U.S. and approximately 187 million subscribers and viewers in international markets as of December 31, 2020.
- Animal Planet is dedicated to creating high quality content with global appeal delivering on its mission to keep the childhood joy and wonder of animals alive by bringing people up close in every way.
- In the U.S., Animal Planet audiences can enjoy their favorite programming anytime, anywhere through the Animal Planet GO app, which features live and on-demand access.
- Content and talent on Animal Planet include *Crikey! It's the Irwins*, *The Zoo*, *The Zoo: San Diego*, *Pit Bulls & Parolees*, *Dr. Jeff: Rocky Mountain Vet*, *The Aquarium* and *Puppy Bowl*.
- Target viewers are adults aged 25 to 54.



- Investigation Discovery ("ID") had approximately 84 million subscribers in the U.S. and approximately 90 million subscribers and viewers in international markets as of December 31, 2020.
- ID is a leading true crime, mystery and suspense network. From in-depth investigations to heart-breaking mysteries, ID challenges our everyday understanding of culture, society and the human condition.
- In the U.S., ID audiences can enjoy their favorite programming anytime, anywhere through the Discovery GO app, which features live and on-demand access.
- ID content includes *On the Case with Paula Zahn*, *Homicide Hunter: Lt. Joe Kenda*, *In Pursuit with John Walsh*, and the *ID Murder Mystery* franchise.
- Target viewers are adults aged 25 to 54, particularly women.



- Travel Channel had approximately 83 million subscribers in the U.S. and approximately 46 million subscribers and viewers in international markets as of December 31, 2020.
- Travel Channel is for the bold, daring and spontaneous: adventurers who embrace the thrill of the unexpected, risk-takers who aren't afraid of a little mystery and anyone who loves a great story.
- In the U.S., Travel Channel audiences can enjoy their favorite programming anytime, anywhere through the Discovery GO app which, features live and on-demand access.
- Content on Travel Channel includes *Ghost Adventures*, *The Osbournes Want to Believe*, *Expedition Bigfoot* and *Ghost Nation*.
- Target viewers are adults aged 25 to 54.



- MotorTrend had approximately 73 million subscribers in the U.S. and approximately 150 million subscribers and viewers in international markets, where the brand is known as Turbo, as of December 31, 2020.
- Programming on MotorTrend and the MotorTrend App, the leading subscription streaming service dedicated entirely to the motoring world, is engaging and informative, featuring the best of the automotive world as told by top experts and personalities.
- The MotorTrend App offers more than 8,000 episodes and more than 3,600 hours of automotive series and specials including the most complete collection of classic *Top Gear* (200+ episodes and specials spanning seasons one through 27), the all-new *Top Gear America* and *NASCAR 2020: Under Pressure*, plus every season of *Speed Racer*, *Wheeler Dealers*, *Roadkill*, *Fast N' Loud*, *Bitchin' Rides*, *Iron Resurrection*, *Texas Metal* and many more. The MotorTrend App is available on media players and streaming devices including Amazon FireTV, Apple TV, Roku, Google Chromecast and on the web, as well as across iPhone, iPad, and Android mobile devices.
- In the U.S., MotorTrend TV audiences can also enjoy their favorite MotorTrend programming anytime, anywhere through the Discovery GO app, which features live and on-demand access.
- Target viewers are adults aged 25 to 54, particularly men.



- OWN had approximately 74 million subscribers in the U.S. as of December 31, 2020.
- The Oprah Winfrey Network ("OWN") is the first and only network named for, and inspired by a single iconic leader. OWN is a leading destination for premium scripted and unscripted programming from today's most innovative storytellers, with popular series such as *Queen Sugar*, *Greenleaf*, *Iyanla: Fix My Life*, and new dramas *Delilah* and *David Makes Man*.
- Target viewers are African-American women aged 25 to 54.

## U.S. NETWORKS

U.S. Networks generated revenues of \$6.9 billion and adjusted operating income before depreciation and amortization ("Adjusted OIBDA") of \$4.0 billion during 2020, which represented 65% and 95% of our total consolidated revenues and Adjusted OIBDA, respectively. Our U.S. Networks segment principally consists of national television networks. Our U.S. Networks segment owns and operates 17 national television networks, including fully distributed television networks such as Discovery Channel, HGTV, Food Network, TLC, and Animal Planet. In addition, we operate the following U.S. Networks: MotorTrend, Investigation Discovery, Travel Channel, Science, Discovery Family, American Heroes Channel, Destination America, Discovery Life, DIY Network, Cooking Channel, Great American Country, and OWN. In 2020, we also provided authenticated U.S. TV Everywhere ("TVE") streaming products that are available to pay-TV subscribers and connect viewers through our GO applications with live and on-demand access to award-winning shows and series from 16 U.S. networks in the Discovery portfolio and from Discovery Familia and Discovery en Español. During 2020, we achieved incremental increases in U.S. digital platform consumption. Furthermore, we provide certain networks to consumers as part of subscription-based over-the-top services provided by DirectTV Now, AT&T Watch, Hulu, SlingTV, fuboTV, and YouTube TV.

U.S. Networks generates revenues from fees charged to distributors of our television networks' first run content, which includes cable, DTH satellite and telecommunication service providers, referred to as affiliate fees; fees from distributors for licensed content and content to equity method investee networks, referred to as other distribution revenue; fees from advertising sold on our television networks and digital products, which include discovery+, our GO suite of TVE applications and other DTC subscription products; fees from providing sales representation, network distribution services; and revenue from licensing our brands for consumer products. Typically, our television networks are aired pursuant to multi-year carriage agreements that provide for the level of carriage that our networks will receive and for annual graduated rate increases. Carriage of our networks depends on package inclusion, such as whether networks are on the more widely distributed, broader packages or lesser-distributed, specialized packages, also referred to as digital tiers. In the U.S., approximately 95% of distribution revenues come from the top 10 distributors, with whom we have agreements that expire at various times. Distribution fees are typically collected ratably throughout the year. Certain of our DTC products, including the recent launch of our aggregated discovery+ service in January 2021, provide dual revenue streams.

Advertising revenue is generated across multiple platforms and is based on the price received for available advertising spots and is dependent upon a number of factors including the number of subscribers to our channels, viewership demographics, the popularity of our programming, our ability to sell commercial time over a portfolio of channels and leverage multiple platforms to connect advertisers to target audiences. In the U.S., advertising time is sold in the upfront and scatter markets. In the upfront market, advertisers buy advertising time for upcoming seasons and, by committing to purchase in advance, lock in the advertising rates they will pay for the upcoming year. Many upfront advertising commitments include options whereby advertisers may reduce or increase purchase commitments. In the scatter market, advertisers buy advertising closer to the time when the commercials will be run, which often results in a pricing premium compared to the upfront rates. The mix of upfront and scatter market advertising time sold is based upon the economic conditions at the time that upfront sales take place, impacting the sell-out levels management is willing or able to obtain. The demand in the scatter market then impacts the pricing achieved for our remaining advertising inventory. Scatter market pricing can vary from upfront pricing and can be volatile.

During 2020, advertising, distribution and other revenues were 58%, 41% and 1%, respectively, of total net revenues for this segment.

## INTERNATIONAL NETWORKS

International Networks generated revenues of \$3.7 billion and Adjusted OIBDA of \$723 million during 2020, which represented 35% and 17% of our total consolidated revenues and Adjusted OIBDA, respectively. Our International Networks segment principally consists of national and pan-regional television networks and brands that are delivered across multiple distribution platforms. This segment generates revenue from operations in virtually every pay-TV market in the world through an infrastructure that includes operational centers in London, Amsterdam, Warsaw, Milan, Singapore and Miami. Global brands include Discovery Channel, Food Network, HGTV, Animal Planet, TLC, ID, Science and MotorTrend (known as Turbo outside of the U.S.), along with brands exclusive to International Networks, including Eurosport, Discovery Kids, DMAX, Discovery Home & Health, and TVN. TVN was acquired in March 2018, as part of our acquisition of Scripps Networks Interactive, Inc. (the "Scripps Acquisition"). As of December 31, 2020, International Networks operates unique distribution feeds in nearly 50 languages with channel feeds customized according to language needs and advertising sales opportunities. International Networks also has FTA networks in Europe and the Middle East and broadcast networks in Poland, Denmark, Norway, Sweden and Finland, and continues to pursue further international expansion. During 2020, we completed the acquisition of a German free-to-air general entertainment TV channel and completed an acquisition of an independent free-to-air commercial broadcaster in New Zealand.

FTA and broadcast networks generate a significant portion of International Networks' revenue. The penetration and growth rates of television services vary across countries and territories depending on numerous factors including the dominance of different television platforms in local markets. While pay-TV services have greater penetration in certain markets, FTA or broadcast television is dominant in others. International Networks has a large international distribution platform with more than 80 networks, with as many as 23 networks distributed in any particular country or territory across more than 220 countries and territories around the world. International Networks pursues distribution across all television platforms based on the specific dynamics of local markets and relevant commercial agreements.

With the growing demand for consumer content on digital and mobile devices, a suite of international DTC products has been made available to consumers. dplay, our real-life entertainment streaming service, was rebranded to our new global streaming service, discovery+, in the UK and Ireland during the fourth quarter of 2020. The remainder of the dplay markets, including the Nordics, Italy, Spain, and the Netherlands, are expected to follow in 2021. Discovery expects to expand its DTC offering across more than 25 key markets in 2021 by leveraging its library of local-language content, as well as its broad portfolio of live sports. Eurosport's existing streaming service, Eurosport Player, offers premium and localized sports to fans in 52 markets in Europe. This service is expected to continue to be available until discovery+ launches and Eurosport Player's content is fully integrated onto the service in those markets.

Beginning with Tokyo 2020, scheduled for the summer of 2021, discovery+ will become the streaming home of the Olympics in Europe (excluding Russia) with live and on-demand access. Eurosport will be an official broadcaster of the Olympics in France and the U.K. for Tokyo 2020.

In Germany, we have partnered with ProSiebenSat.1 to launch the streaming service, Joyn, which offers a collection of free-TV content, with programming and live streams from more than 70 channels. In Poland, we have partnered with Cyfrowy Polsat to create a video streaming platform that, when launched, following regulatory clearance, will give viewers a single destination to access Polish content including movies, series, documentaries, sports and entertainment.

Effective September 2020, the Company realigned its International Networks management reporting structure. As a result, Australia and New Zealand, which were previously included in the Europe reporting unit, are now included in the Asia-Pacific reporting unit.

In addition to the global networks described in the overview section above, we operate networks internationally that utilize the following brands:



- Eurosport is a household name for live sports entertainment, reaching fans across Europe and Asia via Eurosport 1, Eurosport 2, the network's DTC streaming service, Eurosport Player, and Eurosport.com.
- Subscribers and viewers for each brand as of December 31, 2020 were as follows: Eurosport 1: 192 million and Eurosport 2: 82 million.
- Live, exclusive and premium sports are at the core of what Eurosport does, showcasing sporting events with both local and pan-regional appeal. Viewers in Europe can enjoy live action including coverage of cycling's Grand Tours, all four Grand Slam tennis tournaments, as well as every International Ski Federation World Cup and World Championship event during the winter sports season.
- In addition to pan-European rights, Eurosport invests in exclusive and localized rights to drive local audience and commercial relevance. Important local sports rights include soccer leagues such as Eliteserien in Norway, Allsvenskan in Sweden and European Europa League in Sweden, Lega Basket basketball in Italy and year-round ATP World Tour tennis in France, Czech Republic, Finland, Iceland, Norway, Romania, Russia, Slovakia, and Sweden.
- In the summer of 2021, Discovery expects to present our first Olympic Summer Games, Tokyo 2020, in 50 markets and 19 languages across Europe. discovery+ will be the exclusive streaming home of the Olympic Games, while Eurosport Player will be the destination in markets where discovery+ has not launched. Discovery channels and platforms, such as our free-to-air networks in a selection of the Nordic markets, will also showcase the Olympics and contribute to bringing the Olympic Summer Games to more people in Europe.
- Eurosport Events is the Eurosport Group's event management division and global promoter of the Fédération Internationale de l'Automobile ("FIA") World Touring Car Cup and FIA European Rally Championship together with the sport's governing body, the FIA. It is also a promoter of the new PURE ETCR series, the world's first all-electric touring car championship that is set to debut in 2021. In March 2020, Eurosport Events signed a long-term agreement with the UCI, the international federation for cycling, to launch and promote a new world league for Track Cycling – the UCI Track Champions League. Expected to debut in November 2021, the series and cycling will benefit from Discovery's global scale, media platforms and promotion expertise to help grow cycling around the world.



- DMAX had approximately 139 million subscribers and viewers, according to internal estimates, as of December 31, 2020.
- DMAX is a men's factual entertainment channel in Asia and Europe.



**discovery k!ds**

- Discovery Kids had approximately 108 million subscribers and viewers, according to internal estimates, as of December 31, 2020.
- Discovery Kids is the leading pre-school network of Pay TV in Latin America.



- TVN operates a portfolio of free-to-air and pay-TV lifestyle, entertainment, and news networks in Poland, including TVN, TVN7, TTV, HGTV, TVN24, TVN Style, TVN Turbo, TVN24 BiS, TVN Fabuła, Travel Channel, Food Network, iTVN and iTVNExtra.
- The TVN portfolio, excluding HGTV, Travel Channel and Food Network, had approximately 87 million cumulative subscribers and viewers as of December 31, 2020.

Our International Networks segment also owns and operates the following television networks, which reached the following number of subscribers and viewers via pay-TV and FTA or broadcast networks, respectively, as of December 31, 2020:

	<b>International Subscribers and Viewers (millions)</b>
Tele5	44
Jeet Prime	39
Nordic broadcast networks <sup>(a)</sup>	32
Really	29
Quest Red	29
Quest	29
Giallo	25
Frisbee	25
K2	25
Nove	25
DKISS	19
Discovery HD Theater	17
Asian Food Channel	16
World	15
Metro	12
Discovery History	10
Discovery Life Poland	8
Discovery Family	7
Discovery Historia	7
Discovery en Español <sup>(b)</sup>	7
Fine Living Network	6
Discovery Familia <sup>(b)</sup>	6

<sup>(a)</sup> Number of subscribers and viewers corresponds to the sum of the subscribers and viewers to each of the Nordic broadcast networks in Sweden, Norway, Finland and Denmark subject to retransmission agreements with pay-TV providers. The Nordic broadcast networks include Kanal 5, Kanal 9, and Kanal 11 in Sweden, TVNorge, MAX, FEM and VOX in Norway, TV 5, Kutoonen, and Fria in Finland, and Kanal 4, Kanal 5, 6, 7, and Canal 9 in Denmark.

<sup>(b)</sup> U.S. domestic subscribers data from Nielsen Media Research.

Similar to U.S. Networks, a significant source of revenue for International Networks relates to fees charged to operators who distribute our linear networks. Such operators primarily include cable and DTH satellite service providers. International television markets vary in their stages of development. Some markets, such as the U.K., are more advanced digital television markets, while others remain in the analog environment with varying degrees of investment from operators to expand channel capacity or convert to digital technologies. Common practice in some markets results in long-term contractual distribution relationships, while customers in other markets renew contracts annually. Distribution revenue for our International Networks segment is largely dependent on the number of subscribers that receive our networks or content, the rates negotiated in the distributor agreements, and the market demand for the content that we provide. International Networks additionally generates revenues through DTC subscription services.

The other significant source of revenue for International Networks relates to advertising sold on our television networks and across distribution platforms, similar to U.S. Networks. Advertising revenue is dependent upon a number of factors, including the development of pay and FTA television markets, the number of subscribers to and viewers of our channels, viewership demographics, the popularity of our programming, and our ability to sell commercial time over a portfolio of channels on multiple platforms. In certain markets, our advertising sales business operates with in-house sales teams, while we rely on external sales representation services in other markets. Outside the U.S., advertisers typically buy advertising closer to the time when the commercials will be run. In developing pay-TV markets, we expect advertising revenue growth will result from subscriber growth, our localization strategy, and the shift of advertising spending from broadcast to pay-TV. In mature markets, such as Western Europe, high proportions of market penetration and distribution are unlikely to drive rapid revenue growth. Instead, growth in advertising sales comes from increasing viewership and pricing and launching new services, either in pay-TV, broadcast, or FTA television environments.

During 2020, advertising, distribution and other revenues were 42%, 54% and 3%, respectively, of total net revenues for this segment. While we have traditionally operated cable networks, in recent years an increasing portion of our international advertising revenue is generated by FTA or broadcast networks, unlike U.S. Networks. During 2020, pay-TV networks generated 33% of International Networks' advertising revenue and FTA or broadcast networks generated 67% of International Networks' advertising revenue. We also have increased efforts to drive revenue growth from digital products such as the display DTC entertainment service in select international markets.

International Networks' largest cost is content expense for localized programming. While our International Networks segment maximizes the use of programming from U.S. Networks, we also develop local programming that is tailored to individual market preferences and license the rights to air films, television series and sporting events from third parties. Content acquired from U.S. Networks and content developed locally airing on the same network is amortized similarly, as amortization rates vary by network.

While International Networks and U.S. Networks have similarities with respect to the nature of operations, the generation of revenue and the categories of expense, International Networks have a lower segment margin due to lower economies of scale from being in over 220 markets which requires additional cost for localization to satisfy market variations. International Networks also include sports and FTA broadcast channels, which drive higher costs from sports rights and production and investment in broad entertainment programming for broadcast networks.

In June 2016, the U.K. held a referendum in which voters approved an exit from the European Union ("E.U."), commonly referred to as "Brexit." E.U. law provides for a departing member state to have a two-year notice period to negotiate a term of exit, which the U.K. triggered in March 2017 and subsequently extended. In October 2019, a revised draft withdrawal agreement was published detailing the framework of the future relationship between the U.K. and the E.U. This agreement was ratified by the U.K. and European Parliaments and on January 31, 2020, the U.K. formally left the E.U. Brexit may have an adverse impact on advertising, subscribers, distributors and employees, as described in Item 1A, Risk Factors, below. The withdrawal agreement included a transitional period until December 2020. Discovery, like many international media businesses, sought to mitigate this risk by applying for broadcast licenses in remaining E.U. member states, thereby allowing us continued access to the E.U. single market. We have been operating our E.U. pay-TV channels under Dutch jurisdiction since March 2019. Most of our E.U. free to air channels which were previously operating under the U.K. authority, Ofcom, are operating under German jurisdiction as of January 1, 2021. We continue to monitor the situation for potential effects on our distribution and licensing agreements, unusual foreign currency exchange rate fluctuations, and changes to the legal and regulatory landscape.

## **CONTENT DEVELOPMENT**

Our content development strategy is designed to increase viewership, maintain innovation and quality leadership, and provide value for our network distributors and advertising customers. Our content is sourced from a wide range of third-party producers, which include some of the world's leading nonfiction production companies, as well as independent producers and wholly-owned production studios.

Our production arrangements fall into three categories: produced, coproduced and licensed. Produced content includes content that we engage third parties or wholly owned production studios to develop and produce. We retain editorial control and own most or all of the rights, in exchange for paying all development and production costs. Production of digital-first content such as virtual reality and short-form video is typically done through wholly-owned production studios. Coproduced content refers to program rights on which we have collaborated with third parties to finance and develop either because world-wide rights are not available for acquisition or we save costs by collaborating with third parties. Licensed content is comprised of films or series that have been produced by third parties. Payments for sports rights made in advance of the event are recognized as prepaid content license assets.

International Networks maximizes the use of content from our U.S. Networks. Our non-fiction content tends to be culturally neutral and maintains its relevance for an extended period of time. As a result, a significant amount of our non-fiction content translates well across international borders and is made even more accessible through extensive use of dubbing and subtitles in local languages. Our content can be re-edited and updated in a cost-effective manner to provide topical versions of subject matter that can be utilized around the world. International Networks executes a localization strategy by offering content from U.S. Networks, customized content and localized schedules via our distribution feeds. While our International Networks segment maximizes the use of content from U.S. Networks, we also develop local content that is tailored to individual market preferences and license the rights to air films, television series and sporting events from third-party producers. To that end, during 2018, we entered into a 12-year partnership with the PGA Tour that includes TV and online rights to the PGA Tour outside the United States. Effective January 1, 2019, we announced the launch of GOLFTV, a new live and on-demand international video streaming service providing over 2,000 hours of live golf programming each year and extensive premium content on-demand. Discovery expects to invest more than \$2 billion over the course of the partnership, including licensing rights and building the GOLFTV platform.

Our largest single expense is content, which includes content amortization, content impairment and production costs. We amortize the cost of capitalized content rights based on the proportion that the current year's estimated revenues bear to the estimated remaining total lifetime revenues, which normally results in an accelerated amortization method over the estimated useful lives. However, certain networks also utilize a straight-line method of amortization over the estimated useful lives of the content. Content is amortized primarily over periods of two to four years. The costs for multi-year sports programming arrangements are expensed when the event is broadcast based on the estimated relative value of each season in the arrangement. Content assets are reviewed for impairment when impairment indicators are present, such as low viewership or limited expected use. Impairment losses are recorded when content asset carrying value exceeds net realizable value.

## **COMPETITION**

Providing content across various distribution platforms is a highly competitive business worldwide. We experience competition for the development and acquisition of content, distribution of our content, sale of commercial time on our networks and viewership. There is competition from other production studios, other television networks, and online-based content providers for the acquisition of content and creative talent such as writers, producers and directors. Our ability to produce and acquire popular content is an important competitive factor for the distribution of our content, attracting viewers and the sale of advertising. Our success in securing popular content and creative talent depends on various factors such as the number of competitors providing content that targets the same genre and audience, the distribution of our content, viewership, and the production, marketing and advertising support we provide.

Our networks compete with other television networks, including broadcast, cable and local, for the distribution of our content and fees charged to cable television operators, DTH satellite service providers, and other distributors that carry our content. Our ability to secure distribution agreements is necessary to ensure the retention of our audiences. Our contractual agreements with distributors are renewed or renegotiated from time to time in the ordinary course of business. Growth in the number of networks distributed, consolidation and other market conditions in the cable and satellite distribution industry, and increased popularity of other platforms may adversely affect our ability to obtain and maintain contractual terms for the distribution of our content that are as favorable as those currently in place. The ability to secure distribution agreements is dependent upon the production, acquisition and packaging of original content, viewership, the marketing and advertising support and incentives provided to distributors, the product offering across a series of networks within a region, and the prices charged for carriage.

Our networks and digital products compete for the sale of advertising with other television networks, including broadcast, cable, local networks, and other content distribution outlets for their target audiences and the sale of advertising. Our success in selling advertising is a function of the size and demographics of our audiences, quantitative and qualitative characteristics of the audience of each network, the perceived quality of the network and of the particular content, the brand appeal of the network and ratings as determined by third-party research companies, prices charged for advertising and overall advertiser demand in the marketplace.

Our networks and DTC products also compete for their target audiences with all forms of content and other media provided to viewers, including broadcast, cable and local networks, streaming services, pay-per-view and VOD services, DVDs, online activities and other forms of news, information and entertainment.

Our production studios compete with other production and media companies for talent.

## **INTELLECTUAL PROPERTY**

Our intellectual property assets include copyrights in content, trademarks in brands, names and logos, technology platforms, websites, and licenses of intellectual property rights from third parties.

We are fundamentally a content company and the protection of our brands and content is of primary importance. We have also made and will continue to make investments in developing technology platforms to support our digital products and DTC offerings and consider these platforms to be one of our intellectual property assets. To protect our intellectual property assets, we rely upon a combination of copyright, trademark, unfair competition, trade secret and Internet/domain name statutes and laws, and contract provisions. However, there can be no assurance of the degree to which these measures will be successful. Moreover, effective intellectual property protection may be either unavailable or limited in certain foreign territories. Policing unauthorized use of our products and services and related intellectual property is difficult and costly. We seek to limit unauthorized use of our intellectual property through a combination of approaches. However, the steps taken to prevent the infringement of our intellectual property by unauthorized third parties may not be effective.

Third parties may challenge the validity or scope of our intellectual property from time to time, and the success of any such challenges could result in the limitation or loss of intellectual property rights. Irrespective of their validity, such claims may result in substantial costs and diversion of resources which could have an adverse effect on our operations. In addition, piracy, which encompasses the theft of our signal, and unauthorized use of our content, in the digital environment continues to present a threat to revenues from products and services based on our intellectual property. We use external vendors to detect and remove infringing content and leverage our membership in a range of industry groups to address piracy issues.

## **REGULATORY MATTERS**

Our businesses are subject to and affected by regulations of U.S. federal, state and local government authorities, and our international operations are subject to laws and regulations of the countries and international bodies, such as the E.U., in which we operate. Content networks, such as those owned by us, are regulated by the FCC including some regulations that only apply to content networks affiliated with a cable television operator. Other FCC regulations, although imposed on cable television operators and direct broadcast satellite ("DBS") operators and other distributors, affect content networks indirectly. The rules, regulations, policies and procedures affecting our businesses are constantly subject to change. These descriptions are summary in nature and do not purport to describe all present and proposed laws and regulations affecting our businesses.

### **Program Access**

The FCC's program access rules prevent a satellite-delivered content vendor in which a cable operator has an "attributable" ownership interest from discriminating against unaffiliated multichannel video programming distributors ("MVPDs"), such as cable and DBS operators, in the rates, terms and conditions for the sale or delivery of content. These rules permit the unaffiliated MVPD to initiate a complaint to the FCC against content networks if it believes this rule has been violated.

### **Program Carriage**

The FCC recently made changes to the program carriage rules, which prohibit distributors from favoring their affiliated content networks over unaffiliated similarly situated content networks in the rates, terms and conditions of carriage agreements between content networks and cable operators or other MVPDs. Some of these changes could make it more difficult for us to challenge a distributor's decision to decline to carry one of our content networks or a distributor's actions mid-contract that discriminate against one of our content networks.

### **"Must-Carry"/Retransmission Consent**

The Communications Act (the "Act") imposes "must-carry" regulations on cable systems, requiring them to carry the signals of most local broadcast television stations in their market. DBS systems are also subject to their own must-carry rules. The FCC's implementation of "must-carry" obligations requires cable operators and DBS providers to give broadcasters preferential access to channel space and favorable channel positions. This reduces the amount of channel space that is available for carriage of our networks by cable and DBS operators. The Act also gives broadcasters the choice of opting out of must-carry and invoking the right to retransmission consent, which refers to a broadcaster's right to require MVPDs, such as cable and satellite operators, to obtain the broadcaster's consent before distributing the broadcaster's signal to the MVPDs' subscribers, often at a substantial cost that reduces the content funds available for independent programmers not affiliated with broadcasters, such as us.

### **Accessibility, Children's Advertising Restrictions, and CALM Act**

Certain of our content networks and some of our IP-delivered video content must provide closed-captioning and audio description of some of their programming. Our content networks and digital products intended primarily for children 12 years of age and under must comply with certain limits on advertising. Commercials embedded in our networks' content stream also must adhere to certain standards for ensuring that those commercials are not transmitted at louder volumes than our program material.

## **Obscenity Restrictions**

Network distributors are prohibited from transmitting obscene content, and our distribution agreements generally require us to refrain from including such content on our networks.

## **Regulation of Digital Services**

We operate a variety of free, advertising-based and subscription-based digital products and services providing information, entertainment, e-commerce and interactive experiences to consumers in the U.S. and international markets via web, mobile and connected TV platforms. Our digital services are subject to federal and state regulation in the U.S. relating to the privacy and security of personal information collected from our users, including laws pertaining to the acquisition of personal information from children under 13, such as the federal Children's Online Privacy Protection Act and the federal Controlling the Assault of Non-Solicited Pornography and Marketing Act, and that impose data security and security breach obligations on the Company. These laws are continually evolving, with robust new data protection frameworks having been introduced during the past few years in both the U.S. and international markets, such as the California Consumer Privacy Act ("CCPA"), the E.U. General Data Protection Regulation ("GDPR") and Brazil's General Data Protection Law. Additional federal and state laws and regulations may be adopted with respect to our digital services, covering such issues as data privacy and security, child safety, oversight of user-generated content, advertising, pricing, content, copyrights and trademarks, access by persons with disabilities, distribution, taxation and characteristics and quality of products and services. Our digital products and services available to consumers in international markets are also subject to the laws and regulations of foreign jurisdictions, including, without limitation, consumer protection, data privacy and security, advertising, intellectual property, and content limitations. We must design and operate our digital products and websites in compliance with these laws and regulations.

## **Foreign Laws and Regulations**

The foreign jurisdictions in which our networks are offered have, in varying degrees, laws and regulations governing our businesses.

## **HUMAN CAPITAL**

As of December 31, 2020, we had approximately 9,800 employees, including full-time and part-time employees of our wholly-owned subsidiaries and consolidated ventures. Our employees are located in 36 different countries, with 37% located in the United States and 63% located outside of the United States.

We are a talent-driven business, aiming to attract, develop, and motivate top talent throughout our company. To support these objectives, our human resources programs are designed to provide competitive, locally-relevant benefits, performance-based pay, and customized nonfinancial support and incentives. We also strive to enhance our culture through efforts aimed at making our workplace diverse, engaging and inclusive, and to develop our talent to prepare them for critical roles and leadership positions for the future. We also provide opportunities for our employees to make an impact in their communities through social good initiatives around the world.

Some examples of our human resources programs and initiatives are described below.

### **Compensation**

Our compensation philosophy is to pay for performance, encourage excellence and reward employees who innovate and deliver high-quality results. Our compensation programs are designed to implement our compensation philosophy by:

- paying competitively, across salary grades and geographies;
- applying compensation policies in an internally consistent manner; and
- incenting our employees to deliver on our short- and long-term objectives.

### **Benefits**

We provide an array of benefits and programs that support our employees in their personal and professional lives. Highlights include:

- local medical, dental, and vision plans in many countries around the world to support our employees with access to health care, supplementing any state-provided health care;
- on-site wellness centers in our New York, Silver Spring, Sterling, Knoxville and London offices, a fully-equipped fitness center in our Knoxville office, and access to virtual fitness classes and wellbeing programs;

- family support programs, including on-site childcare in our Knoxville and Warsaw offices, childcare locator services, back-up childcare, maternity/paternity leave, adoption assistance and elder care;
- tools and resources to support the mental wellbeing of our employees and their families, including mental health counselors in our on-site wellness centers and a confidential, dedicated line for employees to contact and speak with a counselor in the event they need mental health support;
- products and services to support employees' financial wellbeing, including life, accident, and disability insurance plans, discount benefits, financial planning tools, a 401(k) savings plan in the U.S. and retirement/pension plans in another 20 countries;
- offering an employee stock purchase plan, which allows employees globally (where legislation permits) an opportunity to buy Discovery, Inc. stock at a discounted price through convenient after-tax payroll deductions with no commission charges; and
- flexible working arrangements around the globe to enable our employees to better balance work and personal commitments, which were expanded during the COVID-19 pandemic to support our employees' health and safety.

#### **Diversity, Equity and Inclusion ("DE&I")**

Our DE&I objective is to foster a culture of equity, inclusion, and mutual respect. In 2020 we emphasized our DE&I focus through Mosaic – our Diversity, Equity and Inclusion activation. Mosaic covers a range of initiatives, including: Unconscious Bias, Respect & Integrity; Allyship; Recruitment and Career Development; Content Diversity; Supplier Diversity; and Social Impact.

We sponsor over 30 chapters of Employee Resource Groups ("ERGs") across the globe with more than 2,500 members. ERGs draw upon their collection of unique experiences to help drive our mission of fostering a diverse and inclusive environment and provide important insights to our diversity, equity and inclusion initiatives.

#### **Learning and Development**

Our Global Learning & Development ("L&D") team provides learning opportunities for employees around the world. The L&D team uses a variety of delivery methods suitable to the content and audience, including live in-person sessions, virtual workshops, webinars, and asynchronous online learning through our global learning management platform.

#### **Social Good**

We have a department dedicated to social good that builds and oversees consumer and employee-facing initiatives and campaigns. We leverage our platforms, resources, and employee base to make an impact in our communities and with our key nonprofit partners. We have corporate partnerships aimed at addressing childhood hunger, racial injustice and wildlife preservation. Our employee-facing initiatives include matching gift and "dollars for doers" programs and sponsoring Impact Day, a global day of employee volunteerism that gives back to the communities where we live and work around the world. We are also committed to using our voice to advocate for action around the issues of our time that are important to our employees. In furtherance of this objective, we support various causes and organizations that promote equal rights, and have committed to a two-year social justice project where Discovery employees will have the opportunity to help reinvestigate likely wrongful conviction cases and attempt to secure pro bono legal services to seek exoneration.

#### **AVAILABLE INFORMATION**

All of our filings with the U.S. Securities and Exchange Commission (the "SEC"), including reports on Form 10-K, Form 10-Q and Form 8-K, and all amendments to such filings are available free of charge at the investor relations section of our website, <https://corporate.discovery.com>, as soon as reasonably practicable after such material is filed with, or furnished to, the SEC. Our annual report, corporate governance guidelines, code of business ethics, audit committee charter, compensation committee charter, and nominating and corporate governance committee charter are also available on our website. In addition, we will provide a printed copy of any of these documents, free of charge, upon written request to: Investor Relations, Discovery, Inc., 8403 Colesville Road, Silver Spring, MD 20910. Additionally, the SEC maintains a website at <http://www.sec.gov> that contains quarterly, annual and current reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, including the Company.

The information contained on our website is not part of this Annual Report on Form 10-K and is not incorporated by reference herein.

**ITEM 1A. Risk Factors.**

Investing in our securities involves risk. In addition to the other information contained in this report, you should consider the following risk factors before investing in our securities.

**Risks Related to Our Industry**

**Our businesses operate in highly competitive industries.**

The entertainment and media programming industries in which we operate are highly competitive. We compete with other programming networks for distribution, viewers and advertising. We face increased competition from subscription based streaming services and DTC offerings, including our recently launched discovery+ product, and we also compete for viewers with other forms of media entertainment, such as home video, movies, periodicals, on-line and mobile activities. In particular, websites and search engines have seen significant advertising growth, a portion of which has moved from traditional cable network and satellite advertisers. Businesses, including ours, that offer multiple services, or that may be vertically integrated and offer both video distribution and programming content, may face closer regulatory review from the competition authorities in the countries in which we currently have operations. If our distributors have to pay higher rates to holders of sports broadcasting rights, it might be difficult for us to negotiate higher rates for distribution of our networks. The ability of our businesses to compete successfully depends on a number of factors, including our ability to consistently supply high quality and popular content, access our niche viewership with appealing category-specific content, adapt to new technologies and distribution platforms and achieve widespread distribution. There can be no assurance that we will be able to compete successfully in the future against existing or new competitors, or that increasing competition will not have a material adverse effect on our business, financial condition or results of operations.

**The success of our business depends on the acceptance of our entertainment and sports content by our U.S. and foreign viewers, which may be unpredictable and volatile.**

The production and distribution of entertainment and sports content are inherently risky businesses because the revenue we derive and our ability to distribute our content depend primarily on consumer tastes and preferences that often change in unpredictable ways. Our success depends on our ability to consistently create and acquire content that meets the changing preferences of viewers in general, in special interest groups, in specific demographic categories and in various international marketplaces. As the home of the Olympic Games in Europe until 2024, we have been developing and innovating new forms of content in connection with the Olympic Games. Our success with the Olympics depends on audience acceptance of this content. If viewers do not find our Olympic Games content acceptable, we could see low viewership, which could lead to low distribution and advertising revenues. The success of our partnership with the PGA Tour, which runs through 2031, is similarly dependent on audience acceptance and viewership. Failing to gain the level of audience acceptance we expect for the PGA Tour content may negatively impact our distribution and advertising revenues over the period of the partnership.

The commercial success of our content also depends upon the quality and acceptance of competing content available in the applicable marketplace. Other factors, including the availability of alternative forms of entertainment and leisure time activities, general economic conditions, piracy, and growing competition for consumer discretionary spending may also affect the audience for our content. Audience sizes for our media networks are critical factors affecting both the volume and pricing of advertising revenue that we receive, and the extent of distribution and the license fees we receive under agreements with our distributors.

Consequently, reduced public acceptance of our entertainment content may decrease our audience share and adversely affect our results of operations.

**There has been a shift in consumer behavior as a result of technological innovations and changes in the distribution of content, which may affect our viewership and the profitability of our business in unpredictable ways.**

Technology and business models in our industry continue to evolve rapidly. Changes to these business models include (a) the presence of streaming services, which are increasing in number and some of which have a significant and growing subscriber base, and (b) the increased video consumption through subscription steaming services and time-delayed or time-shifted viewing of television programming through on-demand services and DVRs. Consumer behavior related to changes in content distribution and technological innovation affect our economic model and viewership in ways that are not entirely predictable.

Consumers are increasingly viewing content on a time-delayed or on-demand basis from traditional distributors and from streaming services, connected apps and websites and on a wide variety of screens, such as televisions, tablets, mobile phones and other devices. Additionally, devices that allow users to view television programs on a time-shifted basis and technologies that enable users to fast-forward or skip programming, including commercials, such as DVRs and portable digital devices and systems that enable users to store or make portable copies of content may affect the attractiveness of our offerings to advertisers and could therefore adversely affect our revenues. There is increased demand for short-form, user-generated and interactive content, which have different economic models than our traditional content offerings. Likewise, distributors are offering smaller programming packages known as “skinny bundles,” which are delivered at a lower cost than traditional offerings and sometimes allow consumers to create a customized package of networks, that are gaining popularity among consumers. If our networks are not included in these packages or consumers favor alternative offerings, we may experience a decline in viewership and ultimately the demand for our programming, which could lead to lower distribution and advertising revenues.

We have also seen declines in subscribers to the traditional cable bundle. In 2020, total U.S. Networks portfolio subscribers declined 5% while subscribers to our fully distributed networks declined 3%. In order to respond to changes in content distribution models in our industry, we have invested in, developed and launched DTC products including dplay, JOYN, MotorTrend and our new discovery+ product. There can be no assurance, however, that our viewers will respond to our DTC products or that our DTC strategy will be successful, particularly given the increase in DTC products on the market. Each distribution model has different risks and economic consequences for us, so the rapid evolution of consumer preferences may have an economic impact that is not ultimately predictable. Distribution windows are also evolving, potentially affecting revenues from other windows. If we cannot ensure that our distribution methods and content are responsive to our target audiences, our business could be adversely affected.

**If our new subscription streaming product, discovery+, fails to attract and retain subscribers, our business may be adversely impacted.**

In January 2021, Discovery launched an aggregated DTC product, discovery+. We have incurred and will likely continue to incur significant costs to develop and market discovery+ and there can be no assurance that consumers and advertisers will embrace our offering or that subscribers will activate or renew a subscription.

Our discovery+ offering is a subscription-based streaming product. The subscription-based streaming service marketplace is crowded and competitive, and our success will also be largely dependent on our ability to initially attract, and to ultimately retain, subscribers. Competitors to discovery+ include traditional linear programming networks, including our own linear channels, and other subscription-based streaming services and DTC offerings. If we are unable to effectively market discovery+ or if consumers do not perceive the pricing and related features of discovery+ to be of value versus our competitors, we may not be able to attract and retain subscribers. Our ability to attract and retain subscribers to discovery+ will also depend in part on our ability to provide compelling content choices that are differentiated from that of our competitors and that are more attractive than other sources of entertainment that consumers could choose in their free time. Furthermore, our ability to provide a quality subscriber experience and our relative service levels, may also impact our ability to attract and retain subscribers. If we are unable to attract and retain subscribers to discovery+, our business could be adversely affected.

**Consolidation among cable and satellite providers, both domestically and internationally, could have an adverse effect on our revenue and profitability.**

Consolidation among cable and satellite operators has given the largest operators considerable leverage in their relationships with programmers, including us. In the U.S., approximately 95% of our distribution revenues come from the top 10 distributors. We currently have agreements in place with the major cable and satellite operators in U.S. Networks and International Networks which expire at various times through 2023. Some of our largest distributors have combined, and as a result, have gained, or may gain, market power, which could affect our ability to maximize the value of our content through those platforms. In addition, many of the countries and territories in which we distribute our networks also have a small number of dominant distributors. Continued consolidation within the industry could reduce the number of distributors to carry our programming, subject our affiliate fee revenue to greater volume discounts, and further increase the negotiating leverage of the cable and satellite television system operators which could have an adverse effect on our financial condition or results of operations.

**Failure to renew, renewal with less favorable terms, or termination of our distribution agreements may cause a decline in our revenue.**

Because our networks are licensed on a wholesale basis to distributors, such as cable and satellite operators, which in turn distribute them to consumers, we are dependent upon the maintenance of distribution agreements with these operators. These distribution agreements generally provide for the level of carriage our networks will receive, such as channel placement and programming package inclusion (widely distributed, broader programming packages compared to lesser distributed, specialized programming packages) and for payment of a license fee to us based on the number of subscribers that receive our networks.

While the number of subscribers associated with our networks impacts our ability to generate advertising revenue, these per subscriber payments also represent a significant portion of our revenue. Our distribution agreements generally have a limited term which varies by market and distributor, and there can be no assurance that these distribution agreements will be renewed in the future or that they will be renewed on terms that are favorable to us. A reduction in the license fees that we receive per subscriber or in the number of subscribers for which we are paid, including as a result of a loss or reduction in carriage for our networks, could adversely affect our distribution revenue. Such a loss or reduction in carriage could also decrease the potential audience for our programs thereby adversely affecting our advertising revenue. In addition, our distribution agreements are complex and individually negotiated. If we were to disagree with one of our counterparties on the interpretation of a distribution agreement, our relationship with that counterparty could be damaged and our business could be negatively affected.

**Interpretation of some terms of our distribution agreements may have an adverse effect on the distribution payments we receive under those agreements.**

Some of our distribution agreements contain “most favored nation” clauses. These clauses typically provide that if we enter into an agreement with another distributor which contains certain more favorable terms, we must offer some of those terms to our existing distributors. We have entered into a number of distribution agreements with terms that differ in some respects from those contained in other agreements. While we believe that we have appropriately complied with the most favored nation clauses included in our distribution agreements, these agreements are complex and other parties could reach a different conclusion that, if correct, could have an adverse effect on our financial condition or results of operations.

**We face cybersecurity and similar risks, which could result in the disclosure of confidential information, disruption of our programming services, damage to our brands and reputation, legal exposure and financial losses.**

We and our partners rely on various technology systems in connection with the production, distribution and broadcast of our programming, and our on-line, mobile and app offerings, as well as our internal systems, involve the storage and transmission of personal and proprietary information. From time to time, hackers target Discovery and our service providers, and our service providers’ systems may be breached due to employee error, malicious code, hacking and phishing attacks, or otherwise. Any such breach or unauthorized access could result in a loss of our proprietary information, which may include user data, a disruption of our services or a reduction of the revenues we are able to generate from such services, damage to our brands and reputation, a loss of confidence in the security of our offerings and services, and significant legal and financial exposure, each of which could potentially have an adverse effect on our business. Additionally, outside parties may attempt to fraudulently induce employees or users to disclose sensitive or confidential information in order to gain access to data and systems. Because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently and often are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures, notwithstanding our ongoing efforts to develop and implement robust data security tools, practices, and protocols. We may not have adequate insurance coverage to compensate us for losses associated with cybersecurity and privacy events.

In addition, we face regulatory risk associated with the acquisition, storage, disclosure, use and protection of personal data, including under the E.U. GDPR, the CCPA, and various other domestic and international privacy and data security laws and regulations, which are continually evolving. These evolving data protection laws may require us to expend significant resources to implement additional data protection measures, and our actual or alleged failure to comply with such laws could result in legal claims, regulatory enforcement actions and significant fines and penalties.

**Risks Related to the COVID-19 Pandemic**

**The ongoing COVID-19 pandemic has disrupted, and is expected to continue to disrupt our business operations and poses risks to our business, results of operations and financial position, the nature and extent of which are highly uncertain, rapidly changing and unpredictable.**

The continuing global spread of the coronavirus disease 2019, commonly called “COVID-19,” has created significant worldwide operational volatility, uncertainty and disruption.

Countries throughout the world have imposed stringent restrictions on social and commercial activity in an effort to slow the spread of the illness. These restrictions vary by location and have had a significant adverse impact upon many sectors, including the media industry in which we operate. The extent of the impact to our business, customers, employees, vendors, and our distribution, advertising and production partners will depend on future developments, which are highly uncertain and cannot be predicted, including new information that may emerge concerning the severity and the extent of future surges of COVID-19 and the actions to contain the virus or treat its impact, among others. Any negative effect on these third parties could materially adversely impact us.

In particular, our advertising revenues, which represented 52% of our consolidated revenues in 2020, may decrease significantly if our advertising partners in certain sectors (such as travel) continue to reduce their advertising spending, or if we are limited in our ability to create and air new content due to prolonged production shutdowns and delays. The COVID-19 pandemic has caused some of our advertisers to reduce their spending, and future declines in the economic prospects of advertisers or the economy in general due to COVID-19 could continue to negatively impact their advertising expenditures in the future. We may continue to experience decreases in advertising revenues related to live sporting events, which have been cancelled or postponed due to the pandemic. For example, the International Olympic Committee and the Tokyo 2020 Organizing Committee agreed to postpone the 2020 Olympic Games to 2021. The postponement of the Olympic Games has delayed our expected Olympic-related revenue. Further, a prolonged, global recession due to COVID-19 may put pressure on household budgets and cause a decrease in consumer discretionary spending, which may decrease our subscriber numbers, distribution revenues and the rates we are able to charge for advertising.

In addition, we continue to implement remote work arrangements in various geographic locations. While these arrangements have not materially affected our ability to maintain our business operations to date, these arrangements may adversely impact our business operations in the future.

The extent to which COVID-19 will adversely impact our business, financial condition and results of operations will depend on numerous evolving factors, which are highly uncertain, rapidly changing and cannot be predicted, including:

- the duration and scope of the outbreak, including the extent of future surges of the disease, vaccine distribution and other actions to contain the virus or treat its impact;
- governmental, business and individual actions that have been and continue to be taken in response to the outbreak, including travel restrictions, quarantines, social distancing, work-at-home, stay-at-home and shelter-in-place orders and shut-downs;
- the impact of the outbreak on the financial markets and economic activity generally;
- the effect of the outbreak on our investments, customers, vendors and production partners;
- the impact of the outbreak on the health, well-being and productivity of our employees and the potential for disruption to our ability to conduct our operations; and
- the ability of our customers to pay for our services during and following the outbreak.

**The COVID-19 pandemic has caused substantial disruption in financial markets and economies worldwide, both of which could result in adverse effects on our business, operations, stock price and ability to raise capital.**

The COVID-19 pandemic has negatively impacted the global economy and created significant volatility and disruption in the credit and financial markets, and while some economic disruption may ease from time to time, such disruption is expected to continue and may worsen for an undetermined period of time. The pandemic and continued spread of COVID-19 has caused a global recession. There is a significant degree of uncertainty and lack of visibility as to the extent and duration of such slowdown or recession; however, a prolonged slowdown or recession may adversely affect our credit ratings, stock price, ability to access capital on favorable terms and ability to meet our liquidity needs.

Our actions to limit the adverse effects of COVID-19 on our financial condition may not be successful, as the extent and duration of the adverse effects of the pandemic is not determinable and depends on future developments, which are highly uncertain and cannot be predicted. Events resulting from the effects of COVID-19 may negatively impact our ability to comply with our financial covenants. Also, additional funding may not be available to us on acceptable terms or at all. If adequate funding is not available, we may be required to reduce expenditures, including curtailing our growth strategies and reducing our product development efforts, or forego acquisition opportunities.

**Risks Related to our International Operations**

**We are subject to risks related to our international operations.**

We have operations through which we distribute programming outside the United States. As a result, our business is subject to certain risks inherent in international business, many of which are beyond our control. These risks include:

- laws and policies affecting trade and taxes, including laws and policies relating to the repatriation of funds and withholding taxes, and changes in these laws;
- changes in local regulatory requirements, including restrictions on content, imposition of local content quotas and restrictions on foreign ownership;
- differing degrees of protection for intellectual property and varying attitudes towards the piracy of intellectual property;

- significant fluctuations in foreign currency value;
- currency exchange controls;
- the instability of foreign economies and governments;
- war and acts of terrorism;
- anti-corruption laws and regulations such as the Foreign Corrupt Practices Act and the U.K. Bribery Act that impose stringent requirements on how we conduct our foreign operations and changes in these laws and regulations;
- foreign privacy and data protection laws and regulation and changes in these laws; and
- shifting consumer preferences regarding the viewing of video programming.

Events or developments related to these and other risks associated with international trade could adversely affect our revenues from non-U.S. sources, which could have a material adverse effect on our business, financial condition, operating results, liquidity and prospects. Furthermore, some foreign markets where we and our partners operate may be more adversely affected by current economic conditions than the U.S. We also may incur substantial expense as a result of changes, including the imposition of new restrictions, in the existing economic or political environment in the regions where we do business. Acts of terrorism, hostilities, or financial, political, economic or other uncertainties could lead to a reduction in revenue or loss of investment, which could adversely affect our results of operations.

**Global economic conditions may have an adverse effect on our business.**

Our business is significantly affected by prevailing economic conditions and by disruptions to financial markets. We derive substantial revenues from advertisers, and these expenditures are sensitive to general economic conditions and consumer buying patterns. Financial instability or a general decline in economic conditions in the U.S. and other countries where our networks are distributed could adversely affect advertising rates and volume, resulting in a decrease in our advertising revenues.

Decreases in consumer discretionary spending in the U.S. and other countries where our networks are distributed may affect cable television and other video service subscriptions, in particular with respect to digital service tiers on which certain of our programming networks are carried. This could lead to a decrease in the number of subscribers receiving our programming from multi-channel video programming distributors, which could have a negative impact on our viewing subscribers and distribution revenues. Similarly, a decrease in viewing subscribers would also have a negative impact on the number of viewers actually watching the programs on our programming networks, which could also impact the rates we are able to charge advertisers.

Economic conditions affect a number of aspects of our businesses worldwide and impact the businesses of our partners who purchase advertising on our networks and might reduce their spending on advertising. Economic conditions can also negatively affect the ability of those with whom we do business to satisfy their obligations to us. The general worsening of current global economic conditions could adversely affect our business, financial condition or results of operations, and the worsening of economic conditions in certain parts of the world, specifically, could impact the expansion and success of our businesses in such areas.

**As a company that has operations in the United Kingdom, the United Kingdom’s withdrawal from the E.U. could have an adverse impact on our business, results of operations and financial position.**

On January 31, 2020, the United Kingdom (“U.K.”) formally withdrew from the E.U., commonly referred to as “Brexit.” The transition period, during which the pre-Brexit rights and obligations on trade, travel and business for the U.K. and the E.U. continued to apply, ended on December 31, 2020. As of January 1, 2021, the relationship between the U.K. and the E.U. is governed by the EU-UK Trade and Co-operation Agreement (“TCA”), which is effective provisionally pending ratification by the European Parliament.

As a result of Brexit, the single market and country of origin principles which have facilitated our cross-border activities from the U.K. into the E.U. have ceased, which could have an adverse impact on our operations and business activities. We have incurred, and may continue to incur, costs, including due to reestablishment of broadcasting entities from the U.K. into the E.U., staff relocations and business travel, to minimize disruption to our businesses in the E.U. There remains potential legal uncertainty and potentially divergent national laws and regulations as the U.K. determines which E.U. laws to replace and/or replicate.

The announcement and implementation of Brexit has caused significant volatility in global stock markets and currency exchange rate fluctuations. With the expansion of our international operations, our exposure to currency exchange rate fluctuation has increased. This increase in exposure could have an adverse effect on our results of operations and net asset balances, due, in part, to currency fluctuations impacting the British pound and the Euro. Brexit may also create global uncertainty, which may cause a decrease in consumer discretionary spending. Decreases in consumer discretionary spending may affect cable television and other video service subscriptions where our networks are distributed. A decrease in the number of subscribers receiving our programming could have a negative impact on our distribution revenues and the rates we are able to charge for advertising. In addition, different market requirements for advertising content may impact our advertising revenues. Any of the foregoing factors may adversely affect our business, results of operations or financial position.

**Foreign exchange rate fluctuations may adversely affect our operating results and financial conditions.**

We have significant operations in a number of foreign jurisdictions and certain of our operations are conducted and certain of our debt obligations are denominated in foreign currencies. As a result, we have exposure to foreign currency risk as we enter into transactions and make investments denominated in multiple currencies. The value of these currencies fluctuates relative to the U.S. dollar. Our consolidated financial statements are denominated in U.S. dollars, and to prepare those financial statements we must translate the amounts of the assets, liabilities, net sales, other revenues and expenses of our operations outside of the U.S. from local currencies into U.S. dollars using exchange rates for the current period. As we have expanded our international operations, our exposure to exchange rate fluctuations has increased. This increased exposure could have an adverse effect on our reported results of operations and net asset balances. There is no assurance that downward trending currencies will rebound or that stable currencies will remain unchanged in any period or for any specific market.

**Increasing complexity of global tax policy and regulations could adversely impact our international business and results of operations.**

We continue to face the increasing complexity of operating a global business, as we are subject to tax policy and regulations in multiple non-U.S. jurisdictions. Many foreign jurisdictions are contemplating additional taxes and/or levies on media advertising, including the recently announced proposed levy on media companies under consideration by the Polish government. In addition, many foreign jurisdictions have increased scrutiny and have either changed, or plan to change, their international tax systems due to the Organisation for Economic Co-operation and Development's ("OECD") Base Erosion and Profit Shifting ("BEPS") recommendations. The BEPS recommendations call for enhanced transparency and reporting relating to companies' entity structures and transfer pricing policies. These have been implemented through various initiatives including the requirement for taxpayers to comply with global country-by-country reporting and the filing of a global master file as well as the introduction of the multilateral instrument ("MLI") which allows taxing authorities to better take aim at multinational tax avoidance. We continue to address and comply with these compliance and reporting requirements.

Additional complexity has also arisen in state aid: state resources used to provide recipients an advantage on a selective basis that has or could distort competition and affect trade between European member states. In recent years the European Commission ("EC") has increased their scrutiny on state aid and deviated from the historical E.U. state aid practices. There is great uncertainty about the future of E.U. state aid practices based on the appeals of many significant EC rulings against multinational corporations that are currently being challenged. The potential impact of these rulings is difficult to assess and our transfer pricing analyses conducted pursuant to accepted OECD methodologies may not sufficiently mitigate risk associated with our past or current agreements.

In addition, the determination of our worldwide provision for income taxes and current and deferred tax assets and liabilities requires judgment and estimation. Our income taxes could also be materially adversely affected by earnings being lower than anticipated in jurisdictions that have lower statutory tax rates and higher than anticipated in jurisdictions that have higher statutory tax rates, by changes in the valuation of our deferred tax assets and liabilities, or by changes in worldwide tax laws, regulations, or accounting principles.

In the U.S., President Biden put forth several corporate income tax proposals during his campaign, including a significant increase in the corporate income tax rate and changes in the taxation of non-U.S. income. While it is too early to predict the outcome of these proposals, if enacted, they would have a material impact on our income tax liability.

### **Risks Related to Our Business Model and Capital Structure**

#### **We have a significant amount of debt and may incur significant amounts of additional debt, which could adversely affect our financial health and our ability to react to changes in our business.**

As of December 31, 2020, we had approximately \$15.4 billion of consolidated debt, of which \$335 million is current. Our substantial level of indebtedness increases the possibility that we may be unable to generate cash sufficient to pay when due the principal of, interest on, or other amounts associated with our indebtedness. In addition, we have the ability to draw down our \$2.5 billion revolving credit facility in the ordinary course, which would have the effect of increasing our indebtedness. We are also permitted, subject to certain restrictions under our existing indebtedness, to obtain additional long-term debt and working capital lines of credit to meet future financing needs. This would have the effect of increasing our total leverage.

Our substantial leverage could have significant negative consequences on our financial condition and results of operations, including:

- impairing our ability to meet one or more of the financial ratio covenants contained in our revolving credit facility or to generate cash sufficient to pay interest or principal, which could result in an acceleration of some or all of our outstanding debt in the event that an uncured default occurs;
- increasing our vulnerability to general adverse economic and market conditions;
- limiting our ability to obtain additional debt or equity financing;
- requiring the dedication of a substantial portion of our cash flow from operations to service our debt, thereby reducing the amount of cash flow available for other purposes;
- requiring us to sell debt or equity securities or to sell some of our core assets, possibly on unfavorable terms, to meet payment obligations;
- limiting our flexibility in planning for, or reacting to, changes in our business and the markets in which we compete; and
- placing us at a possible competitive disadvantage with less leveraged competitors and competitors that may have better access to capital resources.

#### **Our ability to incur debt and the use of our funds could be limited by the restrictive covenants in the loan agreement for our revolving credit facility.**

The loan agreement for our revolving credit facility contains restrictive covenants, as well as requirements to comply with certain leverage and other financial maintenance tests. These covenants and requirements could limit our ability to take various actions, including incurring additional debt, guaranteeing indebtedness and engaging in various types of transactions, including mergers, acquisitions and sales of assets. These covenants could place us at a disadvantage compared to some of our competitors, who may have fewer restrictive covenants and may not be required to operate under these restrictions. Further, these covenants could have an adverse effect on our business by limiting our ability to take advantage of financing, mergers and acquisitions or other opportunities.

#### **Financial performance for our equity method investments and investments without readily determinable fair value may differ from current estimates.**

We have equity investments in several entities and the accounting treatment applied for these investments varies depending on a number of factors, including, but not limited to, our percentage ownership and the level of influence or control we have over the relevant entity. Any losses experienced by these entities could adversely impact our results of operations and the value of our investment. In addition, if these entities were to fail and cease operations, we may lose the entire value of our investment and the stream of any shared profits. Some of our ventures may require additional uncommitted funding. We also have significant investments in entities that we have accounted for as investments without readily determinable fair value. If these entities experience significant losses or were to fail and cease operations, our investments could be subject to impairment and the loss of a part or all of our investment value.

**As a holding company, we could be unable to obtain cash in amounts sufficient to meet our financial obligations or other commitments.**

Our ability to meet our financial obligations and other contractual commitments will depend upon our ability to access cash. We are a holding company, and our sources of cash include our available cash balances, net cash from the operating activities of our subsidiaries, any dividends and interest we may receive from our investments, availability under our credit facility or any credit facilities that we may obtain in the future and proceeds from any asset sales we may undertake in the future. The ability of our operating subsidiaries, including Discovery Communications, LLC, to pay dividends or to make other payments or advances to us will depend on their individual operating results and any statutory, regulatory or contractual restrictions, including restrictions under our credit facility, to which they may be or may become subject. Under the 2017 Tax Cuts and Jobs Act, we were subject to U.S. taxes for the deemed repatriation of certain cash balances held by foreign corporations. The Company intends to continue to permanently reinvest these funds outside of the U.S., and current plans do not demonstrate a need to repatriate them to fund our U.S. operations.

**Risks Related to Corporate Structure**

**We have directors in common with those of Liberty Media Corporation ("Liberty Media"), Liberty Global plc ("Liberty Global"), Qurate Retail Group f/k/a Liberty Interactive Corporation ("Qurate Retail"), Liberty Broadband Corporation ("Liberty Broadband"), and Liberty Latin America Ltd ("LLA"), which may result in the diversion of business opportunities or other potential conflicts.**

Liberty Media, Liberty Global, Qurate Retail, Liberty Broadband and LLA (together, the "Liberty Entities") own interests in various U.S. and international companies, such as Charter Communications, Inc. ("Charter"), that have subsidiaries that own or operate domestic or foreign content services that may compete with the content services we offer. We have no rights in respect of U.S. or international content opportunities developed by or presented to the subsidiaries of any Liberty Entities, and the pursuit of these opportunities by such subsidiaries may adversely affect our interests and those of our stockholders. Because we and the Liberty Entities have overlapping directors, the pursuit of business opportunities may serve to intensify the conflicts of interest or appearance of conflicts of interest faced by the respective management teams. Our charter provides that none of our directors or officers will be liable to us or any of our subsidiaries for breach of any fiduciary duty by reason of the fact that such individual directs a corporate opportunity to another person or entity (including any Liberty Entities), for which such individual serves as a director or officer, or does not refer or communicate information regarding such corporate opportunity to us or any of our subsidiaries, unless (a) such opportunity was expressly offered to such individual solely in his or her capacity as a director or officer of us or any of our subsidiaries and (b) such opportunity relates to a line of business in which we or any of our subsidiaries is then directly engaged.

**We have directors that are also related persons of Advance/Newhouse and that overlap with those of the Liberty Entities, which may lead to conflicting interests for those tasked with the fiduciary duties of our board.**

Our twelve-person board of directors includes three designees of Advance/Newhouse Programming Partnership ("Advance/Newhouse"), including Robert J. Miron, who was the Chairman of Advance/Newhouse until December 31, 2010, and Steven A. Miron, the Chief Executive Officer of Advance/Newhouse. In addition, our board of directors includes two persons who are currently members of the board of directors of Liberty Media, three persons who are currently members of the board of directors of Liberty Global, one person who is currently a member of the board of directors of Qurate Retail, two persons who are currently members of the board of directors of Liberty Broadband, one person who is currently a member of the board of directors of Charter, of which Liberty Broadband owns an equity interest, and two persons who are currently members of the board of directors of LLA. John C. Malone is the Chairman of the boards of all of the Liberty Entities other than LLA and Qurate Retail. The parent company of Advance/Newhouse and the Liberty Entities own interests in a range of media, communications and entertainment businesses.

Advance/Newhouse will elect three directors annually for so long as it owns a specified minimum amount of our Series A-1 convertible preferred stock. The Advance/Newhouse Series A-1 convertible preferred stock, which votes with our common stock on all matters other than the election of directors, represents approximately 24% of the voting power of our outstanding shares. The Series A-1 convertible preferred stock also grants Advance/Newhouse consent rights over a range of our corporate actions, including fundamental changes to our business, the issuance of additional capital stock, mergers and business combinations and certain acquisitions and dispositions.

None of the Liberty Entities own any interest in us. Mr. Malone beneficially owns: shares of Liberty Media representing approximately 47% of the aggregate voting power of its outstanding stock, shares representing approximately 30% of the aggregate voting power of Liberty Global, shares representing approximately 40% of the aggregate voting power of Qurate Retail, shares representing approximately 48% of the aggregate voting power of Liberty Broadband and shares representing approximately 21% of the aggregate voting power (other than with respect to the election of the common stock directors) of our outstanding stock. Mr. Malone controls approximately 27% of our aggregate voting power relating to the election of our nine common stock directors, assuming that the preferred stock owned by Advance/Newhouse has not been converted into shares of our common stock. Our directors who are also directors of the Liberty Entities hold stock and stock-based compensation in the Liberty Entities and hold our stock and stock-based compensation.

These ownership interests and/or business positions could create, or appear to create, potential conflicts of interest when these individuals are faced with decisions that could have different implications for us, Advance/Newhouse and/or the Liberty Entities. For example, there may be the potential for a conflict of interest when we, on the one hand, or Advance/Newhouse and/or one or more of the Liberty Entities, on the other hand, consider acquisitions and other corporate opportunities that may be suitable for the other.

The members of our board of directors have fiduciary duties to us and our stockholders. Likewise, those persons who serve in similar capacities at Advance/Newhouse or a Liberty Entity have fiduciary duties to those companies. Therefore, such persons may have conflicts of interest or the appearance of conflicts of interest with respect to matters involving or affecting both respective companies, and there can be no assurance that the terms of any transactions will be as favorable to us or our subsidiaries as would be the case in the absence of a conflict of interest.

**It may be difficult for a third party to acquire us, even if such acquisition would be beneficial to our stockholders.**

Certain provisions of our charter and bylaws may discourage, delay or prevent a change in control that a stockholder may consider favorable. These provisions include the following:

- authorizing a capital structure with multiple series of common stock: a Series B that entitles the holders to ten votes per share, a Series A-1 that entitles the holders to one vote per share and a Series C that, except as otherwise required by applicable law, entitles the holders to no voting rights;
- authorizing the Series A-1 convertible preferred stock with special voting rights, which prohibits us from taking any of the following actions, among others, without the prior approval of the holders of a majority of the outstanding shares of such stock:
  - increasing the number of members of the Board of Directors above ten;
  - making any material amendment to our charter or by-laws;
  - engaging in a merger, consolidation or other business combination with any other entity; and
  - appointing or removing our Chairman of the Board or our Chief Executive Officer;
- authorizing the issuance of “blank check” preferred stock, which could be issued by our Board of Directors to increase the number of outstanding shares and thwart a takeover attempt;
- classifying our common stock directors with staggered three-year terms and having three directors elected by the holders of the Series A convertible preferred stock, which may lengthen the time required to gain control of our Board of Directors;
- limiting who may call special meetings of stockholders;
- prohibiting stockholder action by written consent (subject to certain exceptions), thereby requiring stockholder action to be taken at a meeting of the stockholders;
- establishing advance notice requirements for nominations of candidates for election to our Board of Directors or for proposing matters that can be acted upon by stockholders at stockholder meetings;
- requiring stockholder approval by holders of at least 80% of our voting power or the approval by at least 75% of our Board of Directors with respect to certain extraordinary matters, such as a merger or consolidation, a sale of all or substantially all of our assets or an amendment to our charter;
- requiring the consent of the holders of at least 75% of the outstanding Series B common stock (voting as a separate class) to certain share distributions and other corporate actions in which the voting power of the Series B common stock would be diluted by, for example, issuing shares having multiple votes per share as a dividend to holders of Series A common stock; and

- the existence of authorized and unissued stock which would allow our Board of Directors to issue shares to persons friendly to current management, thereby protecting the continuity of our management, or which could be used to dilute the stock ownership of persons seeking to obtain control of us.

We have also adopted a shareholder rights plan in order to encourage anyone seeking to acquire us to negotiate with our Board of Directors prior to attempting a takeover. While the plan is designed to guard against coercive or unfair tactics to gain control of us, the plan may have the effect of making more difficult or delaying any attempts by others to obtain control of us.

**Holders of any single series of our common stock may not have any remedies if any action by our directors or officers has an adverse effect on only that series of common stock.**

Principles of Delaware law and the provisions of our charter may protect decisions of our Board of Directors that have a disparate impact upon holders of any single series of our common stock. Under Delaware law, the Board of Directors has a duty to act with due care and in the best interests of all of our stockholders, including the holders of all series of our common stock. Principles of Delaware law established in cases involving differing treatment of multiple classes or series of stock provide that a board of directors owes an equal duty to all common stockholders regardless of class or series and does not have separate or additional duties to any group of stockholders. As a result, in some circumstances, our directors may be required to make a decision that is adverse to the holders of one series of common stock. Under the principles of Delaware law referred to above, stockholders may not be able to challenge these decisions if our Board of Directors is disinterested and adequately informed with respect to these decisions and acts in good faith and in the honest belief that it is acting in the best interests of all of our stockholders.

**If Advance/Newhouse were to exercise its registration rights, it may cause a significant decline in our stock price, even if our business is doing well.**

Advance/Newhouse has been granted registration rights covering all of the shares of common stock issuable upon conversion of the convertible preferred stock held by Advance/Newhouse. Each share of Advance/Newhouse's Series A-1 convertible preferred stock is currently convertible into nine shares of our Series A common stock and each share of Advance/Newhouse's Series C-1 convertible preferred stock is convertible into 19.3648 shares of our Series C common stock, subject to certain anti-dilution adjustments. The registration rights, which are immediately exercisable, are transferable with the sale or transfer by Advance/Newhouse of blocks of shares representing 10% or more of the preferred stock it holds. The exercise of the registration rights, and subsequent sale of possibly large amounts of our common stock in the public market, could materially and adversely affect the market price of our common stock.

**John C. Malone and Advance/Newhouse each have significant voting power with respect to corporate matters considered by our stockholders.**

For corporate matters other than the election of directors, Mr. Malone and Advance/Newhouse each beneficially own shares of our stock representing approximately 21% and 24%, respectively, of the aggregate voting power represented by our outstanding stock. With respect to the election of directors, Mr. Malone controls approximately 27% of the aggregate voting power relating to the election of the nine common stock directors (assuming that the convertible preferred stock owned by Advance/Newhouse (the "A/N Preferred Stock") has not been converted into shares of our common stock). The A/N Preferred Stock carries with it the right to designate three preferred stock directors to our board (subject to certain conditions) but does not carry voting rights with respect to the election of the nine common stock directors. Also, under the terms of the A/N Preferred Stock, Advance/Newhouse has special voting rights as to certain enumerated matters, including material amendments to the restated charter and bylaws, fundamental changes in our business, mergers and other business combinations, certain acquisitions and dispositions and future issuances of capital stock. Although there is no stockholder agreement, voting agreement or any similar arrangement between Mr. Malone and Advance/Newhouse, by virtue of their respective holdings, Mr. Malone and Advance/Newhouse each have significant influence over the outcome of any corporate transaction or other matter submitted to our stockholders.

## **General Risks**

### **Theft of our content, including digital copyright theft and other unauthorized exhibitions of our content, may decrease revenue received from our programming and adversely affect our businesses and profitability.**

The success of our business depends in part on our ability to maintain the intellectual property rights to our entertainment content. We are fundamentally a content company, and piracy of our brands, television networks, digital content and other intellectual property has the potential to significantly and adversely affect us. Piracy is particularly prevalent in many parts of the world that lack copyright and other protections similar to existing law in the U.S. It is also made easier by technological advances allowing the conversion of content into digital formats, which facilitates the creation, transmission and sharing of high-quality unauthorized copies. Unauthorized distribution of copyrighted material over the Internet is a threat to copyright owners' ability to protect and exploit their property. The proliferation of unauthorized use of our content may have an adverse effect on our business and profitability because it reduces the revenue that we potentially could receive from the legitimate sale and distribution of our content. Litigation may be necessary to enforce our intellectual property rights, protect trade secrets or to determine the validity or scope of proprietary rights claimed by others.

### **Domestic and foreign laws and regulations could adversely impact our operating results.**

Programming services like ours, and the distributors of our services, including cable operators, satellite operators and other multi-channel video programming distributors, are regulated by U.S. federal laws and regulations issued and administered by various federal agencies, including the FCC, as well as by state and local governments, in ways that affect the daily conduct of our video content business. See the discussion under "Business – Regulatory Matters" above. The U.S. Congress, the FCC and the courts currently have under consideration, and may adopt or interpret in the future, new laws, regulations and policies regarding a wide variety of matters that could, directly or indirectly, affect the operations of our U.S. media properties or modify the terms under which we offer our services and operate.

Similarly, the foreign jurisdictions in which our networks are offered have, in varying degrees, laws and regulations governing our businesses. Programming businesses are subject to regulation on a country-by-country basis. Changes in regulations imposed by foreign governments could also adversely affect our business, results of operations and ability to expand our operations beyond their current scope.

### **Financial markets are subject to volatility and disruptions that may affect our ability to obtain or increase the cost of financing our operations and our ability to meet our other obligations.**

Increased volatility and disruptions in the U.S. and global financial and equity markets may make it more difficult for us to obtain financing for our operations or investments or increase the cost of obtaining financing. Our borrowing costs can be affected by short and long-term debt ratings assigned by independent rating agencies which are based, in significant part, on our performance as measured by credit metrics such as interest coverage and leverage ratios. A low rating could increase our cost of borrowing or make it more difficult for us to obtain future financing. Unforeseeable changes in foreign currencies could negatively impact our results of operations and calculations of interest coverage and leverage ratios.

### **Acquisitions and other strategic transactions present many risks and we may not realize the financial and strategic goals that were contemplated at the time of any transaction.**

From time to time we make acquisitions, investments and enter into other strategic transactions, such as the Scripps Acquisition. In connection with such acquisitions and strategic transactions, we may incur unanticipated expenses, fail to realize anticipated benefits, have difficulty incorporating the acquired businesses, disrupt relationships with current and new employees, subscribers, affiliates and vendors, incur significant debt, or have to delay or not proceed with announced transactions. Additionally, regulatory agencies, such as the FCC or U.S. Department of Justice may impose additional restrictions on the operation of our business as a result of our seeking regulatory approvals for any significant acquisitions and strategic transactions. The occurrence of any of these events could have an adverse effect on our business.

**Our inability to successfully acquire and integrate other businesses, assets, products or technologies could harm our operating results.**

Our success may depend on opportunities to buy other businesses or technologies that could complement, enhance or expand our current business or products or that might otherwise offer us growth opportunities. We have acquired, and have made strategic investments in, a number of companies (including through joint ventures) in the past, such as the Scripps Acquisition, and we expect to make additional acquisitions and strategic investments in the future. Such transactions may result in dilutive issuances of our equity securities, use of our cash resources, and incurrence of debt and amortization expenses related to intangible assets. Any acquisitions and strategic investments that we are able to identify and complete may be accompanied by a number of risks, including:

- the difficulty of assimilating the operations and personnel of acquired companies into our operations;
- the potential disruption of our ongoing business and distraction of management;
- the incurrence of additional operating losses and operating expenses of the businesses we acquired or in which we invested;
- the difficulty of integrating acquired technology and rights into our services and unanticipated expenses related to such integration;
- the failure to successfully further develop an acquired business or technology and any resulting impairment of amounts currently capitalized as intangible assets;
- the failure of strategic investments to perform as expected or to meet financial projections;
- the potential for patent and trademark infringement and data privacy and security claims against the acquired companies, or companies in which we have invested;
- litigation or other claims in connection with acquisitions, acquired companies, or companies in which we have invested;
- the impairment or loss of relationships with customers and partners of the companies we acquired or in which we invested or with our customers and partners as a result of the integration of acquired operations;
- the impairment of relationships with, or failure to retain, employees of acquired companies or our existing employees as a result of integration of new personnel;
- our lack of, or limitations on our, control over the operations of our joint venture companies;
- the difficulty of integrating operations, systems, and controls as a result of cultural, regulatory, systems, and operational differences;
- in the case of foreign acquisitions and investments, the impact of particular economic, tax, currency, political, legal and regulatory risks associated with specific countries; and
- the impact of known potential liabilities or liabilities that may be unknown, including as a result of inadequate internal controls, associated with the companies we acquired or in which we invested.

Our failure to be successful in addressing these risks or other problems encountered in connection with our past or future acquisitions and strategic investments could cause us to fail to realize the anticipated benefits of such acquisitions or investments, incur unanticipated liabilities, and harm our business generally.

**The loss of key personnel or talent could disrupt our business and adversely affect our revenue.**

Our business depends upon the continued efforts, abilities and expertise of our corporate and divisional executive teams and entertainment personalities. Following the completion of a merger, like the Scripps Acquisition, current and prospective employees may experience uncertainty about their future roles with Discovery and choose to pursue other opportunities, which could have an adverse effect on Discovery. If key employees depart, our business may be adversely affected. Additionally, we employ or contract with entertainment personalities who may have loyal audiences. These individuals are important to audience endorsement of our programs and other content. There can be no assurance that these individuals will remain with us or retain their current audiences. If we fail to retain key individuals or if our entertainment personalities lose their current audience base, our operations could be adversely affected.

**ITEM 1B. Unresolved Staff Comments.**

None.

**ITEM 2. Properties.**

We own and lease approximately 3.33 million square feet of building space in 120 locations around the world.

In the U.S., we have 29 locations including 405 thousand square feet of owned space and 1.37 million square feet that we lease. Principal locations in the U.S. include:

(i) a planned Global headquarters in New York, New York; once completed it will house various business units including Direct-to-Consumer, Corporate functions, U.S. Ad Sales, U.S. Networks and Discovery Digital Studios,

(ii) two leased offices across New York, New York, collectively used to support Corporate functions, U.S. Ad Sales, U.S. Networks, Direct-to-Consumer and Discovery Digital Studios, which will be consolidated into the Global Headquarters after their leases expire in 2021,

(iii) three owned offices in Knoxville, Tennessee, used for general office space, technology support and content production (including studios and production support), and warehouse space, respectively,

(iv) two leased offices in Los Angeles, California, used for general office space by our U.S. Networks, U.S. Ad Sales and Corporate functions, and by our U.S. Networks and content production functions (including production support), respectively,

(v) leased general office space in Miami, Florida, primarily used by our International Networks segment, where work is underway to reduce our real estate footprint in 2021, and

(vi) an owned technical facility in Sterling, Virginia, used to manage all technical aspects of the majority of our global linear and digital businesses.

We also own and lease approximately 1.56 million square feet of building space at 91 locations outside of the U.S. and are rationalizing our overall real estate footprint as individual leases expire.

In Poland, our TVN business unit has 34 locations including 299 thousand square feet of owned space and 392 thousand square feet that we lease. The TVN office locations are used for linear and digital news and entertainment content production, including studios, warehouse, production, technology, broadcasting and supporting office space, and are located primarily in Warsaw and Krakow. Other principal locations outside of the U.S. include the Office, Production and Payout space in the U.K. and France, and Office and Production space in New Zealand, Denmark, Norway, Germany, and Italy.

We have undertaken consolidations across our global real estate portfolio, resulting in a reduction of approximately 196 thousand square feet.

Each property is considered to be in good condition, adequate for its purpose, and suitably utilized according to the individual nature and requirements of the relevant operations. Our policy is to improve and replace property as considered appropriate to meet the needs of the individual operation.

Our facility management response to COVID-19 was immediate and our site teams continue to follow guidelines issued by local, national and regional public and government health authorities. Our enhanced cleaning and disinfecting programs were proactive and are ongoing and we are addressing environmental and building infrastructural components such as air quality, ventilation and filtration.

**ITEM 3. Legal Proceedings.**

The Company is party to various lawsuits and claims in the ordinary course of business. However, a determination as to the amount of the accrual required for such contingencies is highly subjective and requires judgments about future events. Although the outcome of these matters cannot be predicted with certainty and the impact of the final resolution of these matters on the Company's results of operations in a particular subsequent reporting period is not known, management does not believe that the resolution of these matters will have a material adverse effect on our consolidated financial position, future results of operations or liquidity.

**ITEM 4. Mine Safety Disclosures.**

Not applicable.

## Information about our Executive Officers

Pursuant to General Instruction G(3) to Form 10-K, the information regarding our executive officers required by Item 401(b) of Regulation S-K is hereby included in Part I of this report. The following table sets forth the name and date of birth of each of our executive officers and the office held by such officer as of February 22, 2021.

Name	Position
David M. Zaslav Born January 15, 1960	President, Chief Executive Officer and a common stock director. Mr. Zaslav has served as our President and Chief Executive Officer since January 2007 and a common stock director since September 2008. Mr. Zaslav served as President, Cable & Domestic Television and New Media Distribution of NBC Universal, Inc. ("NBC"), a media and entertainment company, from May 2006 to December 2006. Mr. Zaslav served as Executive Vice President of NBC, and President of NBC Cable, a division of NBC, from October 1999 to May 2006. Mr. Zaslav is a member of the board of Sirius XM Radio Inc., Grupo Televisa S.A.B and LionsGate Entertainment Corp.
Gunnar Wiedenfels Born September 6, 1977	Chief Financial Officer. Mr. Wiedenfels has served as our Chief Financial Officer since April 2017. Prior to joining Discovery, Mr. Wiedenfels served as Chief Financial Officer of ProSiebenSat.1 Media SE ("ProSieben") starting in 2015. Prior to that, he served as ProSieben's Deputy Chief Financial Officer from 2014 to 2015 and served as Chief Group Controller from 2013 to 2015. Previously, he served as ProSieben's Deputy Group Controller, responsible for group-wide budget planning, budget controlling, and management reporting and as Chief Financial Officer, National, where he had commercial responsibility for the group's German-speaking free TV segment. Before this, he worked as a management consultant and engagement manager at McKinsey & Company. In May 2019, Mr. Wiedenfels joined the supervisory board of SAP SE and serves as chairman of their audit committee.
Jean-Briac Perrette Born April 30, 1971	President and CEO of Discovery International. Mr. Perrette became CEO of Discovery International (formerly referred to as Discovery Networks International) in June 2016 and President of Discovery Networks International in March 2014. Prior to that, Mr. Perrette served as our Chief Digital Officer from October 2011 to February 2014. Mr. Perrette served in a number of roles at NBC Universal from March 2000 to October 2011, with the last being President of Digital and Affiliate Distribution.
Adria Alpert Romm Born March 2, 1955	Chief People and Culture Officer since April 2019. Ms. Romm served as our Chief Human Resources and Diversity Officer from March 2014 to March 2019. Prior to that, Ms. Romm served as our Senior Executive Vice President of Human Resources from March 2007 to February 2014. Ms. Romm served as Senior Vice President of Human Resources of NBC from 2004 to 2007. Prior to 2004, Ms. Romm served as a Vice President in Human Resources for the NBC TV network and NBC staff functions.
Bruce L. Campbell Born November 26, 1967	Chief Development, Distribution & Legal Officer. Mr. Campbell became our Chief Distribution Officer in October 2015, Chief Development Officer in August 2010 and served as our General Counsel from December 2010 to April 2017. Mr. Campbell served as Digital Media Officer from August 2014 through October 2015. Prior to that, Mr. Campbell served as our President, Digital Media & Corporate Development from March 2007 through August 2010. Mr. Campbell also served as our corporate secretary from December 2010 to February 2012. Mr. Campbell served as Executive Vice President, Business Development of NBC from December 2005 to March 2007, and Senior Vice President, Business Development of NBC from January 2003 to November 2005.
David Leavy Born December 24, 1969	Chief Corporate Operating Officer. Mr. Leavy served as our Chief Corporate Operations and Communications Officer from March 2016 to June 2019 and became our Chief Corporate Operating Officer in July 2019. Prior to that, Mr. Leavy served as our Chief Communications Officer and Senior Executive Vice President, Corporate Marketing and Business Operations from August 2015 to March 2016. From December 2011 to August 2015, Mr. Leavy served as our Chief Communications Officer and Senior Executive Vice President, Corporate Marketing and Affairs. Prior to that, Mr. Leavy served as our Executive Vice President, Communications and Corporate Affairs and has served in a number of other roles at Discovery since joining in March 2000.

---

**Name**

---

**Position**

---

Lori Locke  
Born August 23, 1963

Chief Accounting Officer. Ms. Locke joined Discovery as our Chief Accounting Officer in June 2019. Prior to joining Discovery, Ms. Locke served as Vice President, Corporate Controller and Principal Accounting Officer for Gannett Co., Inc. ("Gannett"), a media company, from June 2015 to May 2019. Before joining Gannett, Ms. Locke was Vice President and Corporate Assistant Controller for Leidos, Inc. (formerly SAIC, Inc.), a science, engineering and information technology company, from February 2013 to May 2015.

Savalle C. Sims  
Born May 21, 1970

Executive Vice President and General Counsel. Ms. Sims became Executive Vice President and General Counsel in April 2017. Ms. Sims served as our Executive Vice President and Deputy General Counsel from December 2014 to April 2017. Prior to that, Ms. Sims served as our Senior Vice President, Litigation and Intellectual Property from August 2011 through December 2014. Prior to joining Discovery, Ms. Sims was a partner at the law firm of Arent Fox LLP.

## PART II

### ITEM 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

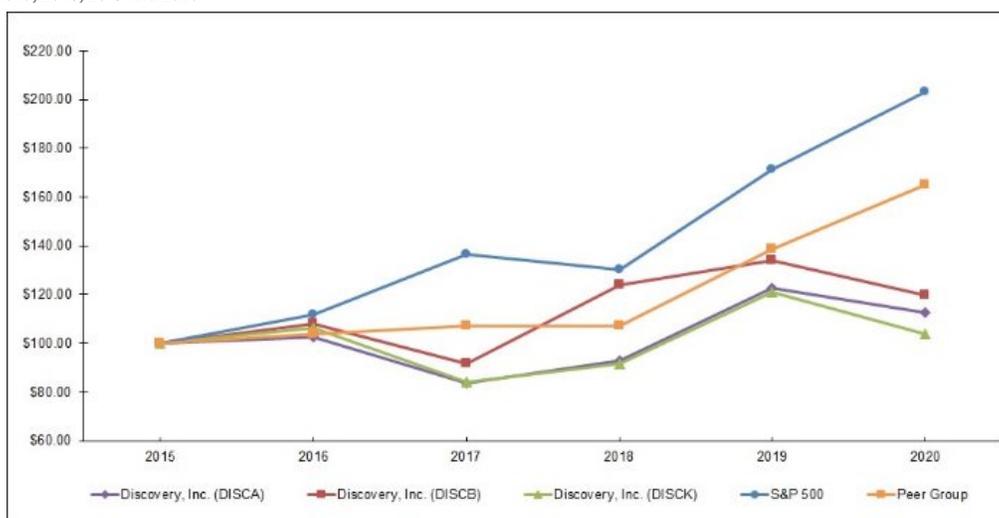
Our Series A common stock, Series B common stock and Series C common stock are listed and traded on The Nasdaq Global Select Market (“NASDAQ”) under the symbols “DISCA,” “DISCB” and “DISCK,” respectively.

As of February 8, 2021, there were approximately 1,106, 64 and 1,629 record holders of our Series A common stock, Series B common stock and Series C common stock, respectively. These amounts do not include the number of shareholders whose shares are held of record by banks, brokerage houses or other institutions, but include each such institution as one shareholder.

We have not paid any cash dividends on our Series A common stock, Series B common stock or Series C common stock, and we have no present intention to do so. Payment of cash dividends, if any, will be determined by our Board of Directors after consideration of our earnings, financial condition and other relevant factors such as our credit facility’s restrictions on our ability to declare dividends in certain situations.

#### Stock Performance Graph

The following graph sets forth the cumulative total shareholder return on our Series A common stock, Series B common stock and Series C common stock as compared with the cumulative total return of the companies listed in the Standard and Poor’s 500 Stock Index (“S&P 500 Index”) and a peer group of companies (the “Peer Group”). The Peer Group is comprised of The Walt Disney Company, ViacomCBS, Inc. Class B common stock, Fox Corporation Class A common stock and AMC Networks Inc. Class A common stock. The graph assumes \$100 originally invested on December 31, 2015 in each of our Series A common stock, Series B common stock and Series C common stock, the S&P 500 Index, and the stocks of the Peer Group, including reinvestment of dividends, for the years ended December 31, 2016, 2017, 2018, 2019 and 2020.



	December 31, 2015	December 31, 2016	December 31, 2017	December 31, 2018	December 31, 2019	December 31, 2020
DISCA	\$ 100.00	\$ 102.74	\$ 83.89	\$ 92.74	\$ 122.73	\$ 112.79
DISCB	\$ 100.00	\$ 107.84	\$ 91.75	\$ 123.94	\$ 134.15	\$ 119.87
DISCK	\$ 100.00	\$ 106.19	\$ 83.94	\$ 91.51	\$ 120.90	\$ 103.85
S&P 500	\$ 100.00	\$ 111.96	\$ 136.40	\$ 130.42	\$ 171.49	\$ 203.04
Peer Group	\$ 100.00	\$ 103.66	\$ 107.06	\$ 107.22	\$ 138.63	\$ 164.87

### Recent Sales of Unregistered Securities

On December 21, 2020, we issued 1,340,954 shares of our Series A common stock in a private transaction exempt from registration under Section 4(a)(2) of the Securities Act to Harpo, Inc. (“Harpo”) in exchange for a portion of Harpo’s equity interest in our consolidated subsidiary OWN LLC (“OWN LLC”), a joint venture between Harpo and our wholly-owned indirect subsidiary, Discovery Communications LLC. We received aggregate consideration valued at approximately \$35 million in the form of a portion of Harpo’s equity in OWN LLC.

### Purchases of Equity Securities

The following table presents information about our repurchases of common stock that were made through open market transactions during the three months ended December 31, 2020 (in millions, except per share amounts).

Period	Total Number of Series C Shares Purchased	Average Price Paid per Share: Series C <sup>(a)</sup>	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
October 1, 2020 - October 31, 2020	7,116,503	\$ 19.01	7,116,503	\$ 1,477,152,160
November 1, 2020 - November 30, 2020	3,808,891	\$ 20.41	3,808,891	\$ 1,399,423,245
December 1, 2020 - December 31, 2020	—	\$ —	—	\$ 1,399,423,245
Total	10,925,394		10,925,394	

<sup>(a)</sup> The amounts do not give effect to any fees, commissions or other costs associated with repurchases of shares.

## **ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

Management's discussion and analysis of financial condition and results of operations is a supplement to and should be read in conjunction with the accompanying consolidated financial statements and related notes. This section provides additional information regarding our businesses, current developments, results of operations, cash flows, financial condition, contractual commitments and critical accounting policies.

A discussion of our results of operations and liquidity for fiscal 2019 compared to fiscal 2018 can be found under Item 7 in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019, filed on February 27, 2020, which is available free of charge on the SEC's website at [www.sec.gov](http://www.sec.gov) and our Investor Relations website at [ir.corporate.discovery.com](http://ir.corporate.discovery.com).

### **BUSINESS OVERVIEW**

We are a global media company that provides content across multiple distribution platforms, including linear platforms such as pay-TV, FTA and broadcast television, our authenticated GO applications, digital distribution arrangements, content licensing arrangements and DTC subscription products. For a discussion of our global portfolio of networks and joint ventures see our business overview set forth in Item 1, "Business" in this Annual Report on Form 10-K.

Our content spans genres including survival, natural history, exploration, sports, general entertainment, home, food, travel, heroes, adventure, crime and investigation, health and kids. We have an extensive library of content and own most rights to our content and footage, which enables us to leverage our library to quickly launch brands and services into new markets and on new platforms. Our content can be re-edited and updated in a cost-effective manner to provide topical versions of subject matter that can be utilized around the world on a variety of platforms.

We aim to invest in high-quality content for our networks and brands with the objective of building viewership, optimizing distribution revenue, capturing advertising revenue, and creating or repositioning branded channels and business to sustain long-term growth and occupy a desired content niche with strong consumer appeal. Our strategy is to maximize the distribution, ratings and profit potential of each of our branded networks. In addition to growing distribution and advertising revenues for our branded networks, we have extended content distribution across new platforms, including brand-aligned websites, online streaming, mobile devices, VOD, and broadband channels, which provide promotional platforms for our television content and serve as additional outlets for advertising and distribution revenue. Audience ratings are a key driver in generating advertising revenue and creating demand on the part of cable television operators, DTH satellite operators, telecommunication service providers, and other content distributors who deliver our content to their customers.

Although we utilize certain brands and content globally, we classify our operations in two reportable segments: U.S. Networks, consisting principally of domestic television networks and digital content services, and International Networks, consisting primarily of international television networks and digital content services. Our segment presentation aligns with our management structure and the financial information management uses to make decisions about operating matters, such as the allocation of resources and business performance assessments. For further discussion of financial information for our segments and the geographical areas in which we do business, our content development activities, and revenues see our business overview set forth in Item 1, "Business" and Note 23 to the consolidated financial statements included in Item 8, "Financial Statements and Supplementary Data" in this Annual Report on Form 10-K.

### **Impact of COVID-19**

On March 11, 2020, the World Health Organization declared the COVID-19 outbreak to be a global pandemic. COVID-19 continues to spread throughout the world, and the duration and severity of its effects and associated economic disruption remain uncertain. Restrictions on social and commercial activity in an effort to contain the virus have had, and are expected to continue to have, a significant adverse impact upon many sectors of the U.S. and global economy, including the media industry. We continue to closely monitor the impact of COVID-19 on all aspects of our business and geographies, including the impact on our customers, employees, suppliers, vendors, distribution and advertising partners, production facilities, and various other third parties.

Beginning in the second quarter of 2020, demand for our advertising products and services decreased due to economic disruptions from limitations on social and commercial activity. These economic disruptions and the resulting effect on the Company slightly eased during the second half of 2020, but the pandemic continued to impact demand through the end of 2020 and this decreased demand is expected to continue into 2021. Many of our third-party production partners that were shut down during most of the second quarter of 2020 due to COVID-19 restrictions came back online in the third quarter of 2020 and, as a result, we have incurred additional costs to comply with various governmental regulations and implement certain safety measures for our employees, talent, and partners. Additionally, certain sporting events that we have rights to were cancelled or postponed, thereby eliminating or deferring the related revenues and expenses, including the Tokyo 2020 Olympic Games, which were postponed to 2021. The postponement of the Olympic Games deferred both Olympic-related revenues and significant expenses from fiscal year 2020 to fiscal year 2021.

In response to the impact of the pandemic, we employed and continue to employ innovative production and programming strategies, including producing content filmed by our on-air talent and seeking viewer feedback on which content to air. We continue to pursue a number of cost savings initiatives which began during the third and fourth quarters of 2020 and believe will offset a portion of anticipated revenue losses and deferrals, through the implementation of travel, marketing, production and other operating cost reductions, including personnel reductions, restructurings and resource reallocations to align our expense structure to ongoing changes within the industry. We also implemented remote work arrangements effective mid-March 2020 and, to date, these arrangements have not materially affected our ability to operate our business.

In addition, we implemented several measures to preserve sufficient liquidity in the near term. During March 2020, we drew down \$500 million under our \$2.5 billion revolving credit facility to increase our cash position and maximize flexibility in light of the current uncertainty surrounding the impact of COVID-19. In addition, in April 2020, we entered into an amendment to our revolving credit facility, which increased flexibility under our financial covenants and issued \$1.0 billion aggregate principal amount of senior notes due May 2030 and \$1.0 billion aggregate principal amount of Senior Notes due May 2050. The proceeds from the notes were used to fund a tender offer for \$1.5 billion of certain Senior Notes with maturities ranging from 2021 through 2023 and to repay the \$500 million outstanding under our revolving credit facility.

In light of the impact of COVID-19, we assessed goodwill, other intangibles, deferred tax assets, programming assets, and accounts receivable for recoverability based upon latest estimates and judgments with respect to expected future operating results, ultimate usage of content and latest expectations with respect to expected credit losses. We recorded goodwill and other intangible assets impairment charges of \$124 million for our Asia-Pacific reporting unit during 2020. Adjustments to reflect increased expected credit losses were not material. Further, hedged transactions were assessed and we have concluded such transactions remain probable of occurrence. Due to significant uncertainty surrounding the impact of COVID-19, management's judgments could change in the future. The effects of the pandemic may have further negative impacts on our financial position, results of operations, and cash flows. However, the current level of uncertainty over the economic and operational impacts of COVID-19 means the related financial impact cannot be reasonably and fully estimated at this time.

The nature and extent of COVID-19's effects on our operations and results will depend on future developments, which are highly uncertain and cannot be predicted, including new information that may emerge concerning the severity and the extent of future surges of COVID-19, vaccine distribution and other actions to contain the virus or treat its impact, among others. We will continue to monitor COVID-19 and its impact on our business results and financial condition. Our consolidated financial statements reflect management's latest estimates and assumptions that affect the reported amounts of assets and liabilities and related disclosures as of the date of the consolidated financial statements and reported amounts of revenue and expenses during the reporting periods presented. Actual results may differ significantly from these estimates and assumptions.

In the United States, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was enacted on March 27, 2020, and the Consolidated Appropriations Act, 2021 was enacted on December 27, 2020. As of December 31, 2020, we do not expect the CARES Act or the Consolidated Appropriations Act, 2021 to have a material effect on our financial position and results of operations. We continue to monitor other relief measures taken by the U.S. and other governments around the world.

## RESULTS OF OPERATIONS

### Items Impacting Comparability

The impact of exchange rates on our business is an important factor in understanding period-to-period comparisons of our results. For example, our international revenues are favorably impacted as the U.S. dollar weakens relative to other foreign currencies, and unfavorably impacted as the U.S. dollar strengthens relative to other foreign currencies. We believe the presentation of results on a constant currency basis (ex-FX), in addition to results reported in accordance with GAAP provides useful information about our operating performance because the presentation ex-FX excludes the effects of foreign currency volatility and highlights our core operating results. The presentation of results on a constant currency basis should be considered in addition to, but not a substitute for, measures of financial performance reported in accordance with GAAP.

The ex-FX change represents the percentage change on a period-over-period basis adjusted for foreign currency impacts. The ex-FX change is calculated as the difference between the current year amounts translated at a baseline rate, which is a spot rate for each of our currencies determined early in the fiscal year as part of our forecasting process (the "2020 Baseline Rate"), and the prior year amounts translated at the same 2020 Baseline Rate. In addition, consistent with the assumption of a constant currency environment, our ex-FX results exclude the impact of our foreign currency hedging activities, as well as realized and unrealized foreign currency transaction gains and losses. Results on a constant currency basis, as we present them, may not be comparable to similarly titled measures used by other companies.

### Consolidated Results of Operations – 2020 vs. 2019

Our consolidated results of operations for 2020 and 2019 were as follows (in millions).

	Year Ended December 31,		% Change	% Change (ex-FX)
	2020	2019		
Revenues:				
Advertising	\$ 5,583	\$ 6,044	(8) %	(7) %
Distribution	4,866	4,835	1 %	1 %
Other	222	265	(16) %	(17) %
Total revenues	10,671	11,144	(4) %	(4) %
Costs of revenues, excluding depreciation and amortization	3,860	3,819	1 %	1 %
Selling, general and administrative	2,722	2,788	(2) %	(1) %
Depreciation and amortization	1,359	1,347	1 %	1 %
Impairment of goodwill and other intangible assets	124	155	(20) %	(21) %
Restructuring and other charges	91	26	NM	NM
Total costs and expenses	8,156	8,135	— %	— %
Operating income	2,515	3,009	(16) %	(15) %
Interest expense, net	(648)	(677)	(4) %	
Loss on extinguishment of debt	(76)	(28)	NM	
Loss from equity investees, net	(105)	(2)	NM	
Other income (expense), net	42	(8)	NM	
Income before income taxes	1,728	2,294	(25) %	
Income tax expense	(373)	(81)	NM	
Net income	1,355	2,213	(39) %	
Net income attributable to noncontrolling interests	(124)	(128)	(3) %	
Net income attributable to redeemable noncontrolling interests	(12)	(16)	(25) %	
Net income available to Discovery, Inc.	\$ 1,219	\$ 2,069	(41) %	

NM - Not meaningful

### *Revenues*

Our advertising revenue is generated across multiple platforms and consists of consumer advertising, which is sold primarily on a national basis in the U.S. and on a pan-regional or local-language feed basis outside the U.S. Advertising contracts generally have a term of one year or less. Advertising revenue is dependent upon a number of factors, including the stage of development of television markets, the popularity of FTA television, the number of subscribers to our channels, viewership demographics, the popularity of our content and our ability to sell commercial time over a group of channels. Revenue from advertising is subject to seasonality, market-based variations, the mix in sales of commercial time between the upfront and scatter markets, and general economic conditions. Advertising revenue is typically highest in the second and fourth quarters. In some cases, advertising sales are subject to ratings guarantees that require us to provide additional advertising time if the guaranteed audience levels are not achieved. We also generate revenue from the sale of advertising through our digital products on a stand-alone basis and as part of advertising packages with our television networks.

Advertising revenue decreased 8% in 2020. Excluding the impact of foreign currency fluctuations, advertising revenue decreased 7%. The decrease was primarily attributable to a decline in demand stemming from the COVID-19 pandemic at both U.S. and International Networks.

Distribution revenue consists principally of fees from affiliates for distributing our linear networks, supplemented by revenue earned from SVOD content licensing and other emerging forms of digital distribution. The largest component of distribution revenue is comprised of linear distribution services for rights to our networks from cable, DTH satellite and telecommunication service providers. We have contracts with distributors representing most cable and satellite service providers around the world, including the largest operators in the U.S. and major international distributors. Distribution revenues are largely dependent on the rates negotiated in the agreements, the number of subscribers that receive our networks or content, the number of platforms covered in the distribution agreement, and the market demand for the content that we provide. From time to time, renewals of multi-year carriage agreements include significant year one market adjustments to re-set subscriber rates, which then increase at rates lower than the initial increase in the following years. In some cases, we have provided distributors launch incentives, in the form of cash payments or free periods, to carry our networks. Distribution revenue also includes fees charged for bulk content arrangements and other subscription services for episodic content. These digital distribution revenues are impacted by the quantity, as well as the quality, of the content we provide.

As reported and excluding the impact of foreign currency fluctuations, distribution revenue increased 1% in 2020 primarily attributable to changes in contractual affiliate rates at U.S. Networks and International Networks.

Other revenue decreased 16% in 2020. Excluding the impact of foreign currency fluctuations, other revenue decreased 17%.

### *Costs of Revenues*

Our principal component of costs of revenues is content expense. Content expense includes television series, television specials, films, sporting events and digital products. The costs of producing a content asset and bringing that asset to market consist of film costs, participation costs, exploitation costs and manufacturing costs.

As reported and excluding the impact of foreign currency fluctuations, costs of revenues increased 1% in 2020 primarily attributable to increases in content amortization from investments to support our next generation initiatives at U.S. Networks.

### *Selling, General and Administrative*

Selling, general and administrative expenses consist principally of employee costs, marketing costs, research costs, occupancy and back office support fees. Selling, general and administrative expenses decreased 2% in 2020. Excluding the impact of foreign currency fluctuations, selling, general and administrative decreased 1%. The decrease was primarily attributable to a reduction in travel costs as a result of COVID-19 and lower marketing-related expenses, partially offset by an increase in personnel costs to support our next generation platforms, including discovery+.

### *Depreciation and Amortization*

Depreciation and amortization expense includes depreciation of fixed assets and amortization of finite-lived intangible assets. As reported and excluding the impact of foreign currency fluctuations, depreciation and amortization increased 1% in 2020. The increase was primarily attributable to an increase in capital expenditures.

### *Impairment of Goodwill and Other Intangible Assets*

Impairment of goodwill and other intangible assets was \$124 million and \$155 million in 2020 and 2019.

### Restructuring and Other Charges

Restructuring and other charges were \$91 million and \$26 million in 2020 and 2019. Restructuring and other charges primarily include employee termination costs and other cost reduction efforts.

### Interest Expense, net

Interest expense decreased 4% in 2020. The decrease was primarily attributable to a lower average debt balance in 2020, a more favorable interest rate profile on our outstanding senior notes, and incremental interest income related to the change in fair value of our cross-currency swaps.

### Loss on Extinguishment of Debt

In 2020, we repurchased \$1.5 billion aggregate principal amount of DCL's and Scripps Networks' senior notes. The repurchase resulted in a loss on extinguishment of debt of \$76 million. The loss included \$67 million of net premiums to par value and \$9 million of other charges.

### Loss from Equity Investees, net

We reported losses from our equity method investees of \$105 million in 2020 compared to losses of \$2 million in 2019. The changes are attributable to the Company's share of earnings and losses from its equity investees.

### Other Income (Expense), net

The table below presents the details of other income (expense), net (in millions).

	Year Ended December 31,	
	2020	2019
Foreign currency (losses) gains, net	\$ (115)	\$ 17
Gain on sale of investment with readily determinable fair value	101	—
Gains (losses) on derivatives not designated as hedges	29	(52)
Change in the value of investments with readily determinable fair value	28	(26)
Expenses from debt modification	(11)	—
Interest income	10	22
Gain on sale of equity method investments	2	13
Remeasurement gain on previously held equity interest	—	14
Other (expense) income, net	(2)	4
Total other income (expense), net	\$ 42	\$ (8)

### Income Taxes

The following table reconciles our effective income tax rate to the U.S. federal statutory income tax rate.

	Year Ended December 31,			
	2020		2019	
Pre-tax income at U.S. federal statutory income tax rate	\$ 363	21 %	\$ 482	21 %
State and local income taxes, net of federal tax benefit	(10)	— %	27	1 %
Effect of foreign operations	7	— %	(21)	(1)%
Noncontrolling interest adjustment	(29)	(2)%	(30)	(1)%
Impairment of goodwill	25	2 %	32	1 %
Deferred tax adjustment	(22)	(1)%	—	— %
Non-deductible compensation	17	1 %	22	1 %
Change in uncertain tax positions	17	1 %	3	— %
Legal entity restructuring, deferred tax impact	—	— %	(445)	(19)%
Renewable energy investments tax credits	—	— %	(1)	— %
Other, net	\$ 5	— %	\$ 12	1 %
Income tax expense	\$ 373	22 %	\$ 81	4 %

Income tax expense was \$373 million and \$81 million, and our effective tax rate was 22% and 4% for 2020 and 2019. The increase in income tax expense in 2020 was primarily attributable to the discrete, one-time, non-cash deferred tax benefit of \$445 million from legal entity restructurings that was recorded in 2019. Additionally, the increase in income tax expense in 2020 was attributable to an increase in provision for uncertain tax positions and an increase in the effect of foreign operations. Those increases were partially offset by a decrease in pre-tax book income, a tax benefit from a favorable multi-year state resolution, and a favorable deferred tax adjustment in the U.S. that was recorded in 2020.

#### **Segment Results of Operations – 2020 vs. 2019**

We evaluate the operating performance of our operating segments based on financial measures such as revenues and Adjusted OIBDA. Adjusted OIBDA is defined as operating income excluding: (i) employee share-based compensation, (ii) depreciation and amortization, (iii) restructuring and other charges, (iv) certain impairment charges, (v) gains and losses on business and asset dispositions, (vi) certain inter-segment eliminations related to production studios, (vii) third-party transaction costs directly related to the acquisition and integration of Scripps Networks and other transactions, and (viii) other items impacting comparability, such as the non-cash settlement of a withholding tax claim. We use this measure to assess the operating results and performance of our segments, perform analytical comparisons, identify strategies to improve performance, and allocate resources to each segment. We believe Adjusted OIBDA is relevant to investors because it allows them to analyze the operating performance of each segment using the same metric management uses. We exclude share-based compensation, restructuring and other charges, certain impairment charges, gains and losses on business and asset dispositions, and acquisition and integration costs from the calculation of Adjusted OIBDA due to their impact on comparability between periods. We also exclude the depreciation of fixed assets and amortization of intangible assets, as these amounts do not represent cash payments in the current reporting period. Certain corporate expenses and inter-segment eliminations related to production studios are excluded from segment results to enable executive management to evaluate segment performance based upon the decisions of segment executives.

Adjusted OIBDA should be considered in addition to, but not a substitute for, operating income, net income and other measures of financial performance reported in accordance with U.S. generally accepted accounting principles (“GAAP”).

The table below presents our Adjusted OIBDA by segment, with a reconciliation of consolidated net income available to Discovery, Inc. to Adjusted OIBDA (in millions).

	Year Ended December 31,		% Change
	2020	2019	
Net income available to Discovery, Inc.	\$ 1,219	\$ 2,069	(41) %
Net income attributable to redeemable noncontrolling interests	12	16	(25) %
Net income attributable to noncontrolling interests	124	128	(3) %
Income tax expense	373	81	NM
Income before income taxes	1,728	2,294	(25) %
Other (income) expense, net	(42)	8	NM
Loss from equity investees, net	105	2	NM
Loss on extinguishment of debt	76	28	NM
Interest expense, net	648	677	(4) %
Operating income	2,515	3,009	(16) %
Depreciation and amortization	1,359	1,347	1 %
Impairment of goodwill and other intangible assets	124	155	(20) %
Employee share-based compensation	99	137	(28) %
Restructuring and other charges	91	26	NM
Transaction and integration costs	6	26	(77) %
Loss on asset disposition	2	—	NM
Settlement of a withholding tax claim	—	(29)	NM
Adjusted OIBDA	\$ 4,196	\$ 4,671	(10) %
Adjusted OIBDA:			
U.S. Networks	3,975	4,117	(3) %
International Networks	723	1,057	(32) %
Corporate, inter-segment eliminations, and other	(502)	(503)	— %
Adjusted OIBDA	\$ 4,196	\$ 4,671	(10) %

The table below presents the calculation of Adjusted OIBDA (in millions).

	Year Ended December 31,		% Change
	2020	2019	
<b>Revenue:</b>			
U.S. Networks	\$ 6,949	\$ 7,092	(2) %
International Networks	3,713	4,041	(8) %
Corporate, inter-segment eliminations, and other	9	11	(18) %
<b>Total revenue</b>	<b>10,671</b>	<b>11,144</b>	<b>(4) %</b>
Costs of revenues, excluding depreciation and amortization	3,860	3,819	1 %
Selling, general and administrative <sup>(a)</sup>	2,615	2,654	(1) %
<b>Adjusted OIBDA</b>	<b>\$ 4,196</b>	<b>\$ 4,671</b>	<b>(10) %</b>

<sup>(a)</sup> Selling, general and administrative expenses exclude employee share-based compensation, third-party transaction and integration costs related to the acquisition of Scripps Networks and other transactions, and for 2019, exclude the settlement of a withholding tax claim.

#### U.S. Networks

The table below presents, for our U.S. Networks segment, revenues by type, certain operating expenses, and Adjusted OIBDA (in millions).

	Year Ended December 31,		Change %
	2020	2019	
<b>Revenues:</b>			
Advertising	\$ 4,012	\$ 4,245	(5) %
Distribution	2,852	2,739	4 %
Other	85	108	(21) %
<b>Total revenues</b>	<b>6,949</b>	<b>7,092</b>	<b>(2) %</b>
Costs of revenues, excluding depreciation and amortization	1,843	1,800	2 %
Selling, general and administrative	1,131	1,175	(4) %
<b>Adjusted OIBDA</b>	<b>3,975</b>	<b>4,117</b>	<b>(3) %</b>
Depreciation and amortization	899	950	
Restructuring and other charges	41	15	
Inter-segment eliminations	4	7	
<b>Operating income</b>	<b>\$ 3,031</b>	<b>\$ 3,145</b>	

#### Revenues

Advertising revenue decreased 5% in 2020 primarily attributable to softer demand stemming from the COVID-19 pandemic, secular declines in the pay-TV ecosystem and, to a lesser extent, lower overall ratings and a decline in inventory, partially offset by increases in pricing and the continued monetization of content offerings on our next generation platforms (such as our GO suite of TVE applications and DTC subscription products).

Distribution revenue increased 4% in 2020 primarily attributable to increases in contractual affiliate rates and certain non-recurring items, partially offset by a decline in linear subscribers. Excluding these non-recurring items, distribution revenue increased 3% in 2020. Total portfolio subscribers at December 31, 2020 were 5% lower than at December 31, 2019, while subscribers to our fully distributed networks were 3% lower than the prior year.

Other revenue decreased \$23 million in 2020.

#### Costs of Revenues

Costs of revenues increased 2% in 2020 primarily attributable to increases in content amortization from investments to support our next generation initiatives, partially offset by a reduction in production projects as a result of COVID-19 and a non-recurring reserve release established in purchase accounting. Content expense was \$1.6 billion and \$1.5 billion in 2020 and 2019.

### *Selling, General and Administrative*

Selling, general and administrative expenses decreased 4% in 2020 primarily attributable to a reduction in travel costs as a result of COVID-19 and lower marketing-related expenses, partially offset by an increase in personnel costs to support our next generation platforms, including discovery+.

### *Adjusted OIBDA*

Adjusted OIBDA decreased 3% in 2020.

### **International Networks**

The following table presents, for our International Networks segment, revenues by type, certain operating expenses, and Adjusted OIBDA (in millions).

	Year Ended December 31,		Change %	Change % (ex-FX)
	2020	2019		
Revenues:				
Advertising	\$ 1,571	\$ 1,799	(13)%	(12)%
Distribution	2,014	2,096	(4)%	(3)%
Other	128	146	(12)%	(15)%
Total revenues	3,713	4,041	(8)%	(7)%
Costs of revenues, excluding depreciation and amortization	2,004	2,016	(1)%	(1)%
Selling, general and administrative	986	968	2%	3%
Adjusted OIBDA	723	1,057	(32)%	(28)%
Depreciation and amortization	374	328		
Impairment of goodwill and other intangible assets	124	155		
Restructuring and other charges	29	20		
Transaction and integration costs	4	—		
Inter-segment eliminations	1	20		
Settlement of a withholding tax claim	—	(29)		
Operating income	\$ 191	\$ 563		

### *Revenues*

Advertising revenue decreased 13% in 2020. Excluding the impact of foreign currency fluctuations, advertising revenue decreased 12%. The decreases were attributable to a decline in demand stemming from the COVID-19 pandemic and the discontinuation of pay-TV distribution with certain European operators.

Distribution revenue decreased 4% in 2020. Excluding the impact of foreign currency fluctuations, distribution revenue decreased 3%. The decreases were primarily attributable to lower contractual affiliate rates, the discontinuation of pay-TV distribution with certain European operators, and a disruption in the number of sporting events in Europe due to COVID-19, partially offset by higher next generation revenues due to subscriber growth.

Other revenue decreased \$18 million in 2020. Excluding the impact of foreign currency fluctuations, other revenue decreased \$22 million.

### *Costs of Revenues*

As reported and excluding the impact of foreign currency fluctuations, costs of revenues decreased 1% in 2020. The decreases were primarily attributable to a reduction in the number of sporting events in Europe due to COVID-19. Content expense, excluding the impact of foreign currency fluctuations, was \$1.3 billion for 2020 and 2019.

### *Selling, General and Administrative*

Selling, general and administrative expenses increased 2% in 2020. Excluding the impact of foreign currency fluctuations, selling, general, and administrative expenses increased 3%. The increases were primarily attributable to higher personnel costs to support our next generation platforms, partially offset by a reduction in travel costs as a result of COVID-19.

### Adjusted OIBDA

Adjusted OIBDA decreased 32% in 2020. Excluding the impact of foreign currency fluctuations, adjusted OIBDA decreased 28%.

### Corporate, Inter-segment Eliminations, and Other

The following table presents our unallocated corporate amounts including certain operating expenses, and Adjusted OIBDA (in millions).

	Year Ended December 31,		% Change
	2020	2019	
Revenues	\$ 9	\$ 11	(18) %
Costs of revenues, excluding depreciation and amortization	13	3	NM
Selling, general and administrative	498	511	(3) %
Adjusted OIBDA	(502)	(503)	— %
Employee share-based compensation	99	137	
Depreciation and amortization	86	69	
Restructuring and other charges	21	(9)	
Transaction and integration costs	2	26	
Loss on asset disposition	2	—	
Inter-segment eliminations	(5)	(27)	
Operating loss	\$ (707)	\$ (699)	

Corporate operations primarily consist of executive management, administrative support services, substantially all of our share-based compensation and transaction and integration costs related to the acquisition of Scripps Networks and other transactions.

## LIQUIDITY AND CAPITAL RESOURCES

### Liquidity

#### Sources of Cash

Historically, we have generated a significant amount of cash from operations. During 2020, we funded our working capital needs primarily through cash flows from operations. As of December 31, 2020, we had \$2.1 billion of cash and cash equivalents on hand. We are a well-known seasoned issuer and have the ability to conduct registered offerings of securities, including debt securities, common stock and preferred stock, on short notice, subject to market conditions. Access to sufficient capital from the public market is not assured. We also have a \$2.5 billion revolving credit facility and commercial paper program described below.

Beginning in February 2020, the COVID-19 pandemic began adversely affecting the availability of borrowings in the commercial paper market. In addition, during the year ended December 31, 2020, we implemented several measures that we believed would preserve sufficient liquidity in the near term in response to the impact of COVID-19, as discussed further below.

- *Debt*

#### 2020 Senior Notes Activity

During 2020, we commenced five separate private offers to exchange (the "Exchange Offers") any and all of Discovery Communications, LLC's ("DCL"), our wholly-owned subsidiary, outstanding 5.000% Senior Notes due 2037, 6.350% Senior Notes due 2040, 4.950% Senior Notes due 2042, 4.875% Senior Notes due 2043 and 5.200% Senior Notes due 2047 (collectively, the "Old Notes") for one new series of DCL 4.000% Senior Notes due September 2055 (the "New Notes"). We completed the Exchange Offers in September 2020, by exchanging \$1.4 billion aggregate principal amount of the Old Notes validly tendered and accepted by us pursuant to the Exchange Offers, for \$1.7 billion aggregate principal amount of the New Notes (before debt discount of \$318 million). The New Notes are fully and unconditionally guaranteed by us and Scripps Networks on an unsecured and unsubordinated basis. The Exchange Offers were accounted for as a debt modification and, as a result, third-party issuance costs totaling \$11 million were expensed as incurred.

Also during 2020, we completed offers to purchase for cash (the "Cash Offers") the Old Notes. Approximately \$22 million aggregate principal amount of the Old Notes were validly tendered and accepted for purchase by us pursuant to the Cash Offers, for total cash consideration of \$27 million, plus accrued interest. The Cash Offers resulted in a loss on extinguishment of debt of \$5 million.

Finally, during 2020, DCL issued \$2.0 billion aggregate principal amount of senior notes due in 2030 and 2050. All of DCL's outstanding senior notes are fully and unconditionally guaranteed on an unsecured and unsubordinated basis by Discovery and Scripps Networks and contain certain covenants, events of default and other customary provisions. DCL used the proceeds from the offering to fund a tender offer for \$1.5 billion aggregate principal amount of DCL's and Scripps Networks' senior notes, which resulted in a loss on extinguishment of debt of \$71 million, and to repay the \$500 million outstanding under our revolving credit facility described below.

#### *2019 Senior Notes Activity*

During 2019, DCL issued \$1.5 billion aggregate principal of senior notes (the "2029 Notes and 2049 Notes").

#### *Revolving Credit Facility and Commercial Paper*

We have access to a \$2.5 billion revolving credit facility. Borrowing capacity under this credit facility is reduced by the outstanding borrowings under our commercial paper program. During March 2020, we drew down \$500 million under the revolving credit facility to increase our cash position and maximize flexibility in light of the uncertainty surrounding the impact of COVID-19 and such amount was repaid during the second quarter of 2020. All obligations of DCL and the other borrowers under the revolving credit facility are unsecured and are fully and unconditionally guaranteed by Discovery.

The credit agreement governing the revolving credit facility (the "Credit Agreement") contains customary representations, warranties and events of default, as well as affirmative and negative covenants. In the second quarter of 2020, to preserve flexibility in the current environment, we amended certain provisions of the Credit Agreement, including modifying the financial covenants to reset the Maximum Consolidated Leverage Ratio. (See Note 8 to the accompany consolidated financial statements.) As of December 31, 2020, we were in compliance with all covenants and there were no events of default under the Credit Agreement.

Under our commercial paper program and subject to market conditions, DCL may issue unsecured commercial paper notes guaranteed by Discovery and Scripps Networks from time to time up to an aggregate principal amount outstanding at any given time of \$1.5 billion, including up to \$500 million of Euro-denominated borrowings. The maturities of these notes vary but may not exceed 397 days. The notes may be issued at a discount or at par, and interest rates vary based on market conditions and the credit rating assigned to the notes at the time of issuance. As of December 31, 2020, we had no outstanding commercial paper borrowings. Borrowings under the commercial paper program reduce the borrowing capacity under the revolving credit facility described above.

#### ***Uses of Cash***

Our primary uses of cash include the creation and acquisition of new content, capital expenditures, business acquisitions, repurchases of our capital stock, income taxes, personnel costs, principal and interest payments on our outstanding senior notes, and funding for various equity method and other investments, including next generation initiatives.

- *Content Acquisition*

We plan to continue to invest significantly in the creation and acquisition of new content. Additional information regarding contractual commitments to acquire content is set forth in "Commitments and Off-Balance Sheet Arrangements" in this Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

- *Capital Expenditures and Investments in Next Generation Initiatives*

We effected capital expenditures of \$402 million in 2020, including amounts capitalized to support our next generation platforms, such as discovery+. In addition, we expect to continue to incur significant costs to develop and market discovery+ in the future.

- *Investments and Business Combinations*

We made business acquisitions of \$39 million and \$73 million in 2020 and 2019.

During 2020, we purchased \$250 million of time deposit investments.

Our uses of cash have included investments in various equity investments. We provide funding to our investees from time to time. We contributed \$181 million and \$254 million in 2020 and 2019, for investments in and advances to our investees.

- *Redeemable Noncontrolling Interest and Noncontrolling Interest*

Due to business combinations, we also have redeemable equity balances of \$383 million, which may require the use of cash in the event holders of noncontrolling interests put their interests to the Company beginning in 2021. Distributions to redeemable noncontrolling interests and noncontrolling interests totaled \$254 million and \$250 million in 2020 and 2019.

- *Common Stock Repurchases*

Historically, we have funded our stock repurchases through a combination of cash on hand, cash generated by operations and the issuance of debt. In February 2020, our Board of Directors authorized additional stock repurchases of up to \$2 billion upon completion of our existing \$1 billion authorization announced in May 2019. Under the new stock repurchase authorization, management is authorized to purchase shares from time to time through open market purchases at prevailing prices or privately negotiated purchases subject to market conditions and other factors. (See Note 12 to the accompanying consolidated financial statements.) During 2020 and 2019, we repurchased \$969 million and \$633 million of our Series C common stock.

- *Income Taxes and Interest*

We expect to continue to make payments for income taxes and interest on our outstanding senior notes. During 2020 and 2019, we made cash payments of \$641 million and \$562 million for income taxes and \$673 million and \$708 million for interest on our outstanding debt.

- *Debt*

*2020 Debt Activity*

In addition to the tender offers for \$1.5 billion aggregate principal amount of DCL's and Scripps Networks' senior notes and repayment of the \$500 million outstanding under our revolving credit facility described above, during 2020 we repaid \$600 million of senior notes as they came due. We have an additional \$335 million of senior notes coming due in June 2021, which will be redeemed on March 21, 2021.

*2019 Debt Activity*

During 2019, we used the net proceeds from the issuance of the 2029 Notes and 2049 Notes to redeem and repurchase \$1.3 billion aggregate principal amount of senior notes. The repayment resulted in a loss on extinguishment of debt of \$23 million.

Also during 2019, we redeemed \$411 million aggregate principal senior notes, made open market bond repurchases of \$55 million, resulting in a loss on extinguishment of debt of \$5 million, and redeemed \$900 million of senior notes and floating rate notes as they came due.

**Cash Flows**

Changes in cash and cash equivalents were as follows (in millions).

	<b>Year Ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
Cash, cash equivalents, and restricted cash, beginning of period	\$ 1,552	\$ 986
Cash provided by operating activities	2,739	3,399
Cash used in investing activities	(703)	(438)
Cash used in financing activities	(1,549)	(2,357)
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	83	(38)
Net change in cash, cash equivalents, and restricted cash	570	566
Cash, cash equivalents, and restricted cash, end of period	<u>\$ 2,122</u>	<u>\$ 1,552</u>

### Operating Activities

Cash provided by operating activities was \$2.7 billion and \$3.4 billion in 2020 and 2019. The decrease was primarily attributable to a decrease in net income excluding non-cash items and, to a lesser extent, a negative fluctuation in working capital activity, primarily due to the timing of payments, partially offset by an increase in receivables collected.

### Investing Activities

Cash used in investing activities was \$703 million and \$438 million in 2020 and 2019. The increase in cash used in investing activities was primarily driven by the purchase of \$250 million in time deposit investments in 2020 and, to a lesser extent, an increase in purchases of property and equipment to support our next generation platforms, including discovery+, partially offset by a reduction in investments in and advances to equity investments.

### Financing Activities

Cash used in financing activities was \$1.5 billion and \$2.4 billion in 2020 and 2019. The decrease in cash used in financing activities was primarily attributable to lower net repayments and incremental borrowings of senior notes and the change in net activity under the revolving credit facility, partially offset by an increase in repurchases of stock.

### Capital Resources

As of December 31, 2020, capital resources were comprised of the following (in millions).

	December 31, 2020			
	Total Capacity	Outstanding Letters of Credit	Outstanding Indebtedness	Unused Capacity
Cash and cash equivalents	\$ 2,091	\$ —	\$ —	\$ 2,091
Revolving credit facility and commercial paper program	2,500	—	—	2,500
Senior notes <sup>(a)</sup>	15,848	—	15,848	—
Total	<u>\$ 20,439</u>	<u>\$ —</u>	<u>\$ 15,848</u>	<u>\$ 4,591</u>

<sup>(a)</sup> Interest on senior notes is paid annually, semi-annually or quarterly. Our senior notes outstanding as of December 31, 2020 had interest rates that ranged from 1.90% to 6.35% and will mature between 2021 and 2055.

We expect that our cash balance, cash generated from operations and availability under the Credit Agreement will be sufficient to fund our cash needs for the next twelve months. Our borrowing costs and access to capital markets can be affected by short and long-term debt ratings assigned by independent rating agencies which are based, in part, on our performance as measured by credit metrics such as interest coverage and leverage ratios.

As of December 31, 2020, we held \$161 million of our \$2.1 billion of cash and cash equivalents in our foreign subsidiaries. The 2017 Tax Act features a participation exemption regime with current taxation of certain foreign income and imposes a mandatory repatriation toll tax on unremitted foreign earnings. Notwithstanding the U.S. taxation of these amounts, we intend to continue to reinvest these funds outside of the U.S. Our current plans do not demonstrate a need to repatriate them to the U.S. However, if these funds are needed in the U.S., we would be required to accrue and pay non-U.S. taxes to repatriate them. The determination of the amount of unrecognized deferred income tax liability with respect to these undistributed foreign earnings is not practicable.

### Summarized Guarantor Financial Information

#### Basis of Presentation

Each of the Company, DCL, Discovery Communications Holding LLC ("DCH") and/or Scripps Networks has the ability to conduct registered offerings of debt securities under the Company's shelf registration statement. As of December 31, 2020, all of the Company's outstanding registered senior notes have been issued by DCL, a wholly owned subsidiary of the Company and guaranteed by the Company and Scripps Networks, except for \$32 million of senior notes outstanding as of December 31, 2020 that have been issued by Scripps Networks and are not guaranteed. (See Note 8 to the accompanying consolidated financial statements.) DCL primarily includes the Discovery Channel and TLC networks in the U.S. DCL is a wholly owned subsidiary of DCH. The Company wholly owns DCH through a 33 1/3% direct ownership interest and a 66 2/3% indirect ownership interest through Discovery Holding Company ("DHC"), a wholly owned subsidiary of the Company. Scripps Networks is 100% owned by the Company.

The tables below present the summarized financial information as combined for Discovery, Inc. (the “Parent”), Scripps Networks and DCL (collectively, the “Obligors”). All guarantees of DCL's senior notes (the “Note Guarantees”) are full and unconditional, joint and several and unsecured, and cover all payment obligations arising under the senior notes. DCH currently is not an issuer or guarantor of any securities and therefore is not included in the summarized financial information included herein.

Note Guarantees issued by Scripps Networks or any subsidiary of the Parent that in the future issues a Note Guarantee (each, a “Subsidiary Guarantor”) may be released and discharged (i) concurrently with any direct or indirect sale or disposition of such Subsidiary Guarantor or any interest therein, (ii) at any time that such Subsidiary Guarantor is released from all of its obligations under its guarantee of payment by DCL, (iii) upon the merger or consolidation of any Subsidiary Guarantor with and into DCL or the Parent or another Subsidiary Guarantor, or upon the liquidation of such Subsidiary Guarantor and (iv) other customary events constituting a discharge of the Obligors’ obligations.

**Summarized Financial Information**

During 2020, the Company early adopted Rule 13-01 of the SEC's Regulation S-X. In lieu of providing separate unaudited financial statements for the Parent and Scripps Networks as a Subsidiary Guarantor, the Company has included the accompanying summarized combined financial information of the Obligors after the elimination of intercompany transactions and balances among the Obligors and the elimination of equity in earnings from and investments in any subsidiary of the Parent that is a non-guarantor (in millions).

	<u>December 31, 2020</u>
Current assets	\$ 2,308
Non-guarantor intercompany trade receivables, net	217
Noncurrent assets	5,905
Current liabilities	915
Noncurrent liabilities	16,500

	<u>Year Ended December 31, 2020</u>
Revenues	\$ 2,036
Operating income	1,041
Net income	162
Net income available to Discovery, Inc.	146

Additional information regarding the changes in our outstanding indebtedness and the significant terms and provisions of our revolving credit facility and outstanding indebtedness is discussed in Note 8 to the accompanying consolidated financial statements included in Item 8, “Financial Statements and Supplementary Data” in this Annual Report on Form 10-K.

## COMMITMENTS AND OFF-BALANCE SHEET ARRANGEMENTS

### Obligations

As of December 31, 2020, our significant contractual obligations, including related payments due by period, were as follows (in millions).

	Payments Due by Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Long-term debt:					
Principal payments	\$ 15,848	\$ 335	\$ 1,587	\$ 2,293	\$ 11,633
Interest payments	10,646	646	1,242	1,111	7,647
Finance lease obligations	263	64	103	54	42
Operating lease obligations	859	91	145	121	502
Content	5,053	1,698	1,105	1,113	1,137
Other	1,297	576	567	85	69
Total	\$ 33,966	\$ 3,410	\$ 4,749	\$ 4,777	\$ 21,030

The above table does not include certain long-term obligations as the timing or the amount of the payments cannot be predicted. The current portion of the liability for cash-settled share-based compensation awards was \$37 million as of December 31, 2020. Additionally, reserves for unrecognized tax benefits have been excluded from the above table because we are unable to predict reasonably the ultimate amount or timing of settlement. Our unrecognized tax benefits totaled \$348 million as of December 31, 2020.

The above table also does not include DCL's revolving credit facility that allows DCL and certain designated foreign subsidiaries of DCL to borrow up to \$2.5 billion, including a \$100 million sublimit for the issuance of standby letters of credit and a \$50 million sublimit for Euro-denominated swing line loans. Borrowing capacity under this agreement is reduced by the outstanding borrowings under the commercial paper program. As of December 31, 2020, the revolving credit facility agreement provided for a maturity date of August 2022 and the option for up to two additional 364-day renewal periods.

From time to time we may provide our equity method investees additional funding that has not been committed to as of December 31, 2020 based on unforeseen investee opportunities or cash flow needs.

### Long-term Debt

Principal payments on long-term debt reflect the repayment of our outstanding senior notes, at face value, assuming repayment will occur upon maturity. Interest payments on our outstanding senior notes are projected based on their contractual rate and maturity.

### Finance Lease Obligations

We acquire satellite transponders and other equipment through multi-year finance lease arrangements. Principal payments on finance lease obligations reflect amounts due under our finance lease agreements. Interest payments on our outstanding finance lease obligations are based on the stated or implied rate in our finance lease agreements.

### Operating Lease Obligations

We obtain office space and equipment under multi-year lease arrangements. Most operating leases are not cancelable prior to their expiration. Payments for operating leases represent the amounts due under the agreements assuming the agreements are not canceled prior to their expiration.

### Purchase Obligations

Content purchase obligations include commitments and liabilities associated with third-party producers and sports associations for content that airs on our television networks. Production contracts generally require: purchase of a specified number of episodes; payments over the term of the license; and include both programs that have been delivered and are available for airing and programs that have not yet been produced or sporting events that have not yet taken place. If the content is ultimately never produced, our commitments expire without obligation. The commitments disclosed above exclude content liabilities recognized on the consolidated balance sheet. We expect to enter into additional production contracts and content licenses to meet our future content needs.

Other purchase obligations include agreements with certain vendors and suppliers for the purchase of goods and services whereby the underlying agreements are enforceable, legally binding and specify all significant terms. Significant purchase obligations include transmission services, television rating services, marketing research, employment contracts, equipment purchases, and information technology and other services. We have contracts that do not require the purchase of fixed or minimum quantities and generally may be terminated with a 30-day to 60-day advance notice without penalty, and are not included in the table above past the 30-day to 60-day advance notice period. Amounts related to employment contracts include base compensation and do not include compensation contingent on future events.

***Put Rights***

We have granted put rights to certain consolidated subsidiaries, which have been excluded from the table above since we are unable to reasonably predict the ultimate amount or timing of any payment. We recorded the carrying value of the noncontrolling interest in the equity associated with the put rights as a component of redeemable noncontrolling interest in the amount of \$383 million. (See Note 11 to the accompanying consolidated financial statements.)

***Pension Obligations***

We sponsor a qualified defined benefit pension plan ("Pension Plan") that covers certain U.S.-based employees. We also have a non-qualified Supplemental Executive Retirement Plan ("SERP").

Contractual commitments summarized in the contractual obligations table include payments to meet minimum funding requirements of our Pension Plan in 2021 and estimated benefit payments for our SERP. Payments for the SERP have been estimated over a ten-year period. While benefit payments under these plans are expected to continue beyond 2030, we believe it is not practicable to estimate payments beyond this period.

***Noncontrolling Interest***

The Food Network and Cooking Channel are operated and organized under the terms of the TV Food Network Partnership (the "Partnership"). We hold interests in the Partnership, along with another noncontrolling owner. During the fourth quarter of 2020, the Partnership agreement was extended and specifies a dissolution date of December 31, 2022. If the term of the Partnership is not extended prior to that date, the Partnership agreement permits us, as holder of 80% of the applicable votes, to reconstitute the Partnership and continue its business. If for some reason the Partnership is not continued, it will be required to limit its activities to winding up, settling debts, liquidating assets and distributing proceeds to the partners in proportion to their partnership interests.

***Off-Balance Sheet Arrangements***

We have no material off-balance sheet arrangements (as defined in Item 303(a)(4) of Regulation S-K) that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

**RELATED PARTY TRANSACTIONS**

In the ordinary course of business, we enter into transactions with related parties, primarily the Liberty Entities and our equity method investees. Information regarding transactions and amounts with related parties is discussed in Note 21 to the accompanying consolidated financial statements included in Item 8, "Financial Statements and Supplementary Data" in this Annual Report on Form 10-K.

**NEW ACCOUNTING AND REPORTING PRONOUNCEMENTS**

We adopted certain accounting and reporting standards during 2020. Information regarding our adoption of new accounting and reporting standards is discussed in Note 2 to the accompanying consolidated financial statements included in Item 8, "Financial Statements and Supplementary Data" in this Annual Report on Form 10-K.

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Our consolidated financial statements are prepared in accordance with GAAP, which requires management to make estimates, judgments and assumptions that affect the amounts reported in the consolidated financial statements included in Item 8, "Financial Statements and Supplementary Data" in this Annual Report on Form 10-K and accompanying notes. Management considers an accounting policy to be critical if it is material to reporting our financial condition and results of operations, and if it requires significant judgment and estimates on the part of management in its application. The development and selection of these critical accounting policies have been determined by management and the related disclosures have been reviewed with the Audit Committee of the Board of Directors of the Company. We believe the following accounting policies are critical to our business operations and the understanding of our results of operations and involve the more significant judgments and estimates used in the preparation of our consolidated financial statements.

### **Uncertain Tax Positions**

We are subject to income taxes in numerous U.S. and foreign jurisdictions. From time to time, we engage in transactions or takes filing positions in which the tax consequences may be uncertain and may recognize tax liabilities based on estimates of whether additional taxes and interest will be due. We establish a reserve for uncertain tax positions unless we determine that such positions are more likely than not to be sustained upon examination based on their technical merits, including the resolution of any appeals or litigation processes. We include interest and where appropriate, potential penalties, in our tax reserves. This assessment relies on estimates and assumptions and may involve a series of complex judgments about future events including the status and results of income tax audits with the relevant tax authorities. Significant judgment is exercised in evaluating all relevant information, the technical merits of the tax positions, and the accurate measurement of uncertain tax positions when determining the amount of reserve and whether positions taken on our tax returns are more likely than not to be sustained. This also involves the use of significant estimates and assumptions with respect to the potential outcome of positions taken on tax returns that may be reviewed by tax authorities.

### **Goodwill and Intangible Assets**

Goodwill is allocated to our reporting units, which are our operating segments or one level below our operating segments (the component level). Reporting units are determined by the discrete financial information available for the component and whether it is regularly reviewed by segment management. Components are aggregated into a single reporting unit if they share similar economic characteristics. Our reporting units are as follows: U.S. Networks, Europe, Latin America, and Asia-Pacific.

We evaluate our goodwill for impairment annually as of October 1 or earlier upon the occurrence of substantive unfavorable changes in economic conditions, industry trends, costs, cash flows, or ongoing declines in market capitalization. If we believe that as a result of our qualitative assessment it is not more likely than not that the fair value of a reporting unit is greater than its carrying amount, a quantitative impairment test is required. The quantitative impairment test requires significant judgment in determining the fair value of the reporting units. We determine the fair value of our reporting units by using a combination of the income approach, which incorporates the use of the discounted cash flow ("DCF") method and the market multiple approach, which incorporates the use of EBITDA multiples based on market data. For the DCF method, we use projections specific to the reporting unit, as well as those based on general economic conditions, which require the use of significant estimates and assumptions. Determining fair value specific to each reporting unit requires the Company to exercise judgment when selecting the appropriate discount rates, control premiums, terminal growth rates, assumed tax rates, relevant comparable company earnings multiples and the amount and timing of expected future cash flows, including revenue growth rates and profit margins. The cash flows employed in the DCF analysis for each reporting unit are based on the reporting unit's budget, long range plan, and recent operating performance. Discount rate assumptions are based on an assessment of the risk inherent in the future cash flows of the respective reporting unit and market conditions.

## 2020 Impairment Analysis

We concluded that the continued impacts of COVID-19 on the operating results of the Europe reporting unit represented a triggering event in the second quarter of 2020. During the second quarter, we performed a quantitative goodwill impairment analysis for our Europe reporting unit using a DCF valuation model. A market-based valuation model was not weighted in the analysis given the significant volatility in the equity markets. Significant judgments and assumptions in the DCF model included the amount and timing of future cash flows, including revenue growth rates, long-term growth rates of 2%, and a discount rate ranging from 10% to 10.5%. The estimated fair value of the Europe reporting unit exceeded its carrying value and, therefore, no impairment was recorded.

Also during the second quarter of 2020, we determined that it was more likely than not that the fair value was greater than the carrying value for all other reporting units with the exception of the Asia-Pacific reporting unit. We performed a quantitative goodwill impairment analysis for the Asia-Pacific reporting unit and determined that the estimated fair value did not exceed its carrying value, which resulted in a pre-tax impairment charge to write-off the remaining \$36 million goodwill balance during the second quarter of 2020. The impairment charge was not deductible for tax purposes. Significant judgments and assumptions included the amount and timing of future cash flows, including revenue growth rates, long-term growth rates ranging from 2% to 2.5%, and a discount rate of 11%. The cash flows employed in the DCF analysis for the Asia-Pacific reporting unit were based on the reporting unit's budget and long-term business plan. The determination of fair value of our Asia-Pacific reporting unit represents a Level 3 fair value measurement in the fair value hierarchy due to its use of internal projections and unobservable measurement inputs. The goodwill impairment charge did not have an impact on the calculation of our financial covenants under our debt arrangements.

During the third quarter of 2020, we realigned our International Networks management reporting structure. As a result, Australia and New Zealand, which were previously included in the Europe reporting unit, are now included in the Asia-Pacific reporting unit, including the associated goodwill. As a result of this realignment, we performed a quantitative goodwill impairment analysis for our Europe and Asia-Pacific reporting units using a DCF valuation model. A market-based valuation model was not weighted in the analysis given the significant volatility in the equity markets. Significant judgments and assumptions in the DCF model included the amount and timing of future cash flows, including revenue growth rates, long-term growth rates of 2% for Europe and 2% to 2.5% for Asia-Pacific, and a discount rate ranging from 10% to 10.5% for Europe and 11% for Asia-Pacific. The estimated fair value of both the Europe and Asia-Pacific reporting units exceeded their carrying values and, therefore, no impairment was recorded.

During the fourth quarter of 2020, we performed our annual qualitative goodwill impairment assessment for all reporting units and we determined that it was more likely than not that the fair value of those reporting units exceeded their carrying values, except for our Europe and Asia-Pacific reporting units. Given limited headroom of below 20% in its Europe and Asia-Pacific reporting units during the third quarter of 2020, we performed a quantitative goodwill impairment analysis for each of these reporting units using a DCF valuation model. A market-based valuation model was not weighted in the analysis due to significant volatility in the reporting units' equity markets.

The quantitative goodwill impairment analysis for our Europe reporting unit indicated that the estimated fair value exceeded its carry value by approximately 20% and, therefore, no impairment was recorded. Significant judgments and assumptions included the amount and timing of future cash flows, including revenue growth rates, long-term growth rate of 2%, and discount rates ranging from 10.5% to 11%. We noted that a 1.0% increase in the discount rate and a 0.5% decrease in the long-term growth rate would not have resulted in an impairment loss. As of December 31, 2020, the carrying value of goodwill assigned to the Europe reporting unit was \$1.9 billion.

The quantitative impairment analysis for our Asia-Pacific reporting unit indicated that estimated fair value did not exceed its carrying value, which resulted in a pre-tax impairment charge to write-off the remaining \$85 million goodwill balance. The impairment was a result of increased cost projections for this region committed to during the fourth quarter of 2020 as part of our global discovery+ rollout strategy. The impairment charge was not deductible for tax purposes. Significant judgments and assumptions included the amount and timing of future cash flows, including revenue growth rates, long-term growth rates ranging from 2% to 2.5%, and a discount rate of 11%. The cash flows employed in the DCF analysis for the Asia-Pacific reporting unit were based on the reporting unit's budget and long-term business plan. The determination of fair value of our Asia-Pacific reporting unit represents a Level 3 fair value measurement in the fair value hierarchy due to its use of internal projections and unobservable measurement inputs. The goodwill impairment charge did not have an impact on the calculation of our financial covenants under our debt arrangements.

## **Content Rights**

Content rights principally consist of television series, specials, films and sporting events. Costs of produced and coproduced content consist of development costs, acquired production costs, direct production costs, certain production overhead costs and participation costs and is capitalized if we have previously generated revenues from similar content in established markets and the content will be used and revenues will be generated for a period of at least one year.

Linear content amortization expense for each period is recognized based on the revenue forecast model, which approximates the proportion that estimated distribution and advertising revenues for the current period represent in relation to the estimated remaining total lifetime revenues. Digital content amortization for each period is recognized based on estimated viewing patterns as there are no direct revenues to associate to the individual content assets and therefore, number of views is most representative of the use of the title. Judgment is required to determine the useful lives and amortization patterns of our content assets.

Critical assumptions used in determining content amortization include: (i) the grouping of content with similar characteristics, (ii) the application of a quantitative revenue forecast model or viewership model based on the adequacy of historical data, (iii) determining the appropriate historical periods to utilize and the relative weighting of those historical periods in the forecast model, (iv) assessing the accuracy of our forecasts and (v) incorporating secondary streams. We then consider the appropriate application of the quantitative assessment given forecasted content use, expected content investment and market trends. Content use and future revenues may differ from estimates based on changes in expectations related to market acceptance, network affiliate fee rates, advertising demand, the number of cable and satellite television subscribers receiving our networks, the number of subscribers to our digital services, and program usage. Accordingly, we continually review our estimates and planned usage and revise our assumptions if necessary.

## **Consolidation**

We have ownership and other interests in and contractual arrangements with various entities, including corporations, partnerships, and limited liability companies. For each such entity, we evaluate our ownership, other interests and contractual arrangements to determine whether we should consolidate the entity or account for its interest as an investment at inception and upon reconsideration events. As part of its evaluation, we initially determine whether the entity is a variable interest entity ("VIE"). Management evaluates key considerations through a qualitative and quantitative analysis in determining whether an entity is a VIE including whether (i) the entity has sufficient equity to finance its activities without additional financial support from other parties, (ii) the ability or inability to make significant decisions about the entity's operations, and (iii) the proportionality of voting rights of investors relative to their obligations to absorb the expected losses (or receive the expected returns) of the entity. If the entity is a VIE and if we have a variable interest in the entity, we use judgment in determining if we are the primary beneficiary and are thus required to consolidate the entity. In making this determination, we evaluate whether we or another party involved with the VIE (1) has the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and (2) has the obligation to absorb losses of or receive benefits from the VIE that could be significant to the VIE.

If it is concluded that an entity is not a VIE, we consider our proportional voting interests in the entity and consolidate majority-owned subsidiaries in which a controlling financial interest is maintained. A controlling financial interest is determined by majority ownership and the absence of substantive third-party participation rights. Key factors we consider in determining the presence of substantive third-party participation rights include, but are not limited to, control of the board of directors, budget approval or veto rights, or operational rights that significantly impact the economic performance of the business such as programming, creative development, marketing, and selection of key personnel. Ownership interests in unconsolidated entities for which we have significant influence are accounted for as equity method.

## **Revenue Recognition**

As described in Note 2, we generate advertising revenues primarily from advertising sold on our television networks and websites and distribution revenues from fees charged to distributors of its network content, which include cable, direct-to-home satellite, telecommunications and digital service providers and bundled long-term content arrangements, as well as through DTC subscription services.

Revenue contracts with our advertising customers may include multiple distinct performance obligations. For example, linear and digital advertising contracts may include the airing of spots and/or the satisfaction of an audience guarantee. For such contracts, judgment is required in allocating the contract value to the individual performance obligations based on their relative standalone selling prices. Various factors such as prior transactions, rate cards and other market indicators are used to determine the standalone selling price of each performance obligation and accordingly, how much revenue is allocated to each performance obligation. For these contracts, revenue recorded when each performance obligation has been satisfied and value has been transferred to the customer.

A substantial portion of the advertising contracts in the U.S. and certain international markets guarantee the advertiser a minimum audience level that either the program in which their advertisements are aired or the advertisement will reach. These advertising campaigns are considered to represent a single, distinct performance obligation. For such contracts, judgement is required in measuring progress across the Company's single performance obligation. Various factors such as pricing specific to the channel, daypart and targeted demographic, as well as estimated audience guarantees, are considered in determining how to appropriately measure progress across the campaigns. Revenues are ultimately recognized based on the audience level delivered multiplied by the average price per impression.

See Item 1A, "Risk Factors" for details on all significant risks that could impact our ability to successfully grow our cash flows.

For an in-depth discussion of each of our significant accounting policies, including our critical accounting policies and further information regarding estimates and assumptions involved in their application, see Note 2 to the accompanying consolidated financial statements included in Item 8, "Financial Statements and Supplementary Data" in this Annual Report on Form 10-K.

#### **ITEM 7A. Quantitative and Qualitative Disclosures about Market Risk.**

Our financial position, earnings and cash flows are exposed to market risks and can be affected by, among other things, economic conditions, interest rate changes, foreign currency fluctuations, and changes in the market values of investments. We have established policies, procedures and internal processes governing our management of market risks and the use of financial instruments to manage our exposure to such risks.

##### **Interest Rates**

We are exposed to the impact of interest rate changes primarily through our actual and potential borrowing activities. During the year ended December 31, 2020, we had access to a \$2.5 billion revolving credit facility, which had no outstanding borrowings as of December 31, 2020. We also have access to a commercial paper program, which had no outstanding borrowings as of December 31, 2020. The interest rate on borrowings under the revolving credit facility is variable based on an underlying index and DCL's then-current credit rating for its publicly traded debt. The revolving credit facility matures in August 2022 and the option for up to two additional 364-day renewal periods. As of December 31, 2020, we had outstanding debt with a book value of \$15.8 billion under various public senior notes with fixed interest rates.

Our current objectives in managing exposure to interest rate changes are to limit the impact of interest rates on earnings and cash flows. To achieve these objectives, we may enter into variable interest rate swaps, effectively converting fixed rate borrowings to variable rate borrowings indexed to LIBOR in order to reduce the amount of interest paid. We may also enter into fixed rate forward starting swaps to limit the impact of volatility in interest rates for future issuances of fixed rate debt. As of December 31, 2020, we had entered into forward starting interest rate swap agreements with a notional value of \$2 billion for the future issuances of fixed rate debt.

As of December 31, 2020, the fair value of our outstanding public senior notes was \$18.7 billion. The fair value of our long-term debt may vary as a result of market conditions and other factors. A change in market interest rates will impact the fair market value of our fixed rate debt. The potential change in fair value of these senior notes from a 100 basis-point increase in quoted interest rates across all maturities, often referred to as a parallel shift in the yield curve, would be a decrease in fair value of approximately \$1.7 billion as of December 31, 2020.

##### **Foreign Currency Exchange Rates**

We transact business globally and are subject to risks associated with changing foreign currency exchange rates. Market risk refers to the risk of loss arising from adverse changes in foreign currency exchange rates. The risk of loss can be assessed from the perspective of adverse changes in fair values, cash flows and future earnings. Our International Networks segment operates from hubs in EMEA, Latin America and Asia. Cash is primarily managed from five global locations with net earnings reinvested locally and working capital requirements met from existing liquid funds. To the extent such funds are not sufficient to meet working capital requirements, drawdowns in the appropriate local currency are available from intercompany borrowings or drawdowns from our revolving credit facility. The earnings of certain international operations are expected to be reinvested in those businesses indefinitely.

The functional currency of most of our international subsidiaries is the local currency. We are exposed to foreign currency risk to the extent that we enter into transactions denominated in currencies other than our subsidiaries' respective functional currencies ("non-functional currency risk"). Such transactions include affiliate and ad sales arrangements, content arrangements, equipment and other vendor purchases and intercompany transactions. Changes in exchange rates with respect to amounts recorded in our consolidated balance sheets related to these items will result in unrealized foreign currency transaction gains and losses based upon period-end exchange rates. We also record realized foreign currency transaction gains and losses upon settlement of the transactions. Moreover, we will experience fluctuations in our revenues, costs and expenses solely as a result of changes in foreign currency exchange rates.

We also are exposed to unfavorable and potentially volatile fluctuations of the U.S. dollar, which is our reporting currency, against the currencies of our operating subsidiaries when their respective financial statements are translated into U.S. dollars for inclusion in our consolidated financial statements. Cumulative translation adjustments are recorded in accumulated other comprehensive loss as a separate component of equity. Any increase or decrease in the value of the U.S. dollar against any foreign functional currency of one of our operating subsidiaries will cause us to experience unrealized foreign currency translation gains or losses with respect to amounts already invested in such foreign currencies. Accordingly, we may experience a negative impact on our net income (loss), other comprehensive income (loss) and equity with respect to our holdings solely as a result of changes in foreign currency.

The majority of our foreign currency exposure is to the Euro, Polish zloty, and the British Pound. We may enter into spot, forward and option contracts that change in value as foreign currency exchange rates change to hedge certain exposures associated with affiliate revenue, the cost for producing or acquiring content, certain intercompany transactions or in connection with forecasted business combinations. These contracts hedge forecasted foreign currency transactions in order to mitigate fluctuations in our earnings and cash flows associated with changes in foreign currency exchange rates. Our objective in managing exposure to foreign currency fluctuations is to reduce volatility of earnings and cash flows. The net fair market value of our foreign currency derivative instruments intended to hedge future cash flows held at December 31, 2020 was a liability value of \$24 million. Most of our non-functional currency risks related to our revenue, operating expenses and capital expenditures were not hedged as of December 31, 2020. We generally do not hedge against the risk that we may incur non-cash losses upon the translation of the financial statements of our subsidiaries and affiliates into U.S. dollars.

#### **Derivatives**

We may use derivative financial instruments to modify our exposure to exogenous events and market risks from changes in foreign currency exchange rates, interest rates, and the fair value of investments with readily determinable fair values. We do not use derivative financial instruments unless there is an underlying exposure. While derivatives are used to mitigate cash flow risk and the risk of declines in fair value, they also limit potential economic benefits to our business in the event of positive shifts in foreign currency exchange rates, interest rates and market values. We do not hold or enter into financial instruments for speculative trading purposes.

#### **Market Values of Investments**

In addition to derivatives, we had investments in entities accounted as equity method investments, equity investments, and other highly liquid instruments, such as money market and mutual funds, that are accounted for at fair value. (See Note 4 and Note 5 to the accompanying consolidated financial statements.) Investments in mutual funds include both fixed rate and floating rate interest earning securities that carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than predicted if interest rates fall. Due in part to these factors, our income from such investments may decrease in the future.

**ITEM 8. Financial Statements and Supplementary Data.**

	<u>Page</u>
<a href="#">Management's Report on Internal Control Over Financial Reporting.</a>	<a href="#">60</a>
<a href="#">Report of Independent Registered Public Accounting Firm.</a>	<a href="#">61</a>
<a href="#">Consolidated Financial Statements of Discovery, Inc.:</a>	<a href="#">64</a>
<a href="#">Consolidated Balance Sheets.</a>	<a href="#">64</a>
<a href="#">Consolidated Statements of Operations.</a>	<a href="#">65</a>
<a href="#">Consolidated Statements of Comprehensive Income (Loss).</a>	<a href="#">66</a>
<a href="#">Consolidated Statements of Cash Flows.</a>	<a href="#">67</a>
<a href="#">Consolidated Statements of Equity.</a>	<a href="#">68</a>
<a href="#">Notes to Consolidated Financial Statements.</a>	<a href="#">69</a>

## MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of Discovery, Inc. (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) and Rule 15d-15(f) of the Securities Exchange Act of 1934, as amended. The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and disposition of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and provide reasonable assurance that receipts and expenditures of the Company are being made only in accordance with authorizations of management and the directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the consolidated financial statements.

Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements prepared for external purposes in accordance with generally accepted accounting principles. Because of the inherent limitations in any internal control, no matter how well designed, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the Company's system of internal control over financial reporting as of December 31, 2020 based on the framework set forth in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on its evaluation, management concluded that, as of December 31, 2020, the Company's internal control over financial reporting was effective at a reasonable assurance level based on the specified criteria.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2020 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report in Item 8 of Part II of this Annual Report on Form 10-K under the caption "Report of Independent Registered Public Accounting Firm."

## Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Discovery, Inc.

### ***Opinions on the Financial Statements and Internal Control over Financial Reporting***

We have audited the accompanying consolidated balance sheets of Discovery, Inc. and its subsidiaries (the “Company”) as of December 31, 2020 and 2019, and the related consolidated statements of operations, of comprehensive income (loss), of equity and of cash flows for each of the three years in the period ended December 31, 2020, including the related notes and schedule of valuation and qualifying accounts for each of the three years in the period ended December 31, 2020 appearing under Item 15(a)(2) (collectively referred to as the “consolidated financial statements”). We also have audited the Company’s internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

### ***Changes in Accounting Principles***

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for goodwill impairment and content in 2020, the manner in which it accounts for leases in 2019, and the manner in which it accounts for revenue from contracts with customers in 2018.

### ***Basis for Opinions***

The Company’s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

### ***Definition and Limitations of Internal Control over Financial Reporting***

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

### ***Critical Audit Matters***

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that (i) relate to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

### ***Certain Reserves for Uncertain Tax Positions***

As described in Notes 2 and 18 to the consolidated financial statements, the Company's reserves for uncertain tax positions were \$348 million as of December 31, 2020. Management establishes a reserve for uncertain tax positions unless management determines that such positions are more likely than not to be sustained upon examination based on their technical merits, including the resolution of any appeals or litigation processes. As disclosed by management, significant judgment is exercised in evaluating all relevant information, the technical merits of the tax positions, and the accurate measurement of uncertain tax positions when determining the amount of the reserve and whether positions taken on the Company's tax returns are more likely than not to be sustained. This also involves the use of significant estimates and assumptions with respect to the potential outcome of positions taken on tax returns that may be reviewed by tax authorities.

The principal considerations for our determination that performing procedures relating to certain reserves for uncertain tax positions is a critical audit matter are (i) the significant judgment by management when determining certain reserves for uncertain tax positions, including a high degree of estimation uncertainty when determining the reserves and (ii) a high degree of auditor judgment, subjectivity and effort in performing procedures and evaluating audit evidence relating to management's determination of certain reserves for uncertain tax positions, the technical merits of the tax positions, and the accurate measurement of the uncertain tax positions.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the recognition, measurement, and completeness of uncertain tax positions. These procedures also included, among others (i) testing the information used in the determination of certain reserves for uncertain tax positions, including international and federal filing positions and the related final tax returns; (ii) testing the calculation of liability for certain reserves for uncertain tax positions by jurisdiction, including evaluating management's assessment of the technical merits of tax positions and estimates of the amount of tax benefit expected to be sustained, as well as the likelihood of the possible estimated outcome; (iii) testing the completeness of management's assessment of uncertain tax positions and possible outcomes of certain tax positions, and (iv) evaluating the status and results of income tax audits with the relevant tax authorities.

*Goodwill Quantitative Impairment Assessments for the Europe Reporting Unit*

As described in Notes 2 and 7 to the consolidated financial statements, the Company's consolidated goodwill balance was \$13.1 billion as of December 31, 2020, and the goodwill associated with the Europe reporting unit was \$1.9 billion. The Company evaluates goodwill for impairment annually as of October 1 or earlier if an event or other circumstance indicates that they may not recover the carrying value of the asset. Management concluded that the continued impacts of COVID-19 on the operating results of the Europe reporting unit represented a triggering event in the second quarter of 2020. If the carrying amount of the reporting unit exceeds the fair value of the reporting unit, an impairment charge is recorded for the amount by which the carrying amount exceeds the fair value, not to exceed the amount of goodwill recorded for that reporting unit. Management performed quantitative goodwill impairment analyses during the second and fourth quarters of 2020 for the Europe reporting unit using a discounted cash flow ("DCF") model. Significant judgments and assumptions by management in the DCF model specific to the Europe reporting unit included the amount and timing of expected future cash flows, including revenue growth rates, long-term growth rates and discount rates.

The principal considerations for our determination that performing procedures relating to the goodwill quantitative impairment assessments for the Europe reporting unit is a critical audit matter are (i) the significant judgment by management when developing the fair value measurements of the reporting unit; (ii) a high degree of auditor judgment, subjectivity, and effort in performing procedures and evaluating management's assumptions related to revenue growth rates, long-term growth rates, and discount rates; and (iii) the audit effort involved the use of professionals with specialized skill and knowledge.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to management's goodwill quantitative impairment assessments, including controls over the valuation of the Company's reporting units. These procedures also included, among others, testing management's process for developing the fair value measurements of the Europe reporting unit, evaluating the appropriateness of the discounted cash flow model, testing the completeness and accuracy of underlying data used in the model and evaluating the significant assumptions used by management related to revenue growth rates, long-term growth rates, and discount rates. Evaluating management's assumptions related to revenue growth rates and long-term growth rates involved evaluating whether the assumptions used by management were reasonable considering (i) the current and past performance of the reporting unit; (ii) the consistency with external market and industry data; and (iii) whether these assumptions were consistent with evidence obtained in other areas of the audit. Professionals with specialized skill and knowledge were used to assist in the evaluation of the discount rates and long-term growth rates.

/s/ PricewaterhouseCoopers LLP  
McLean, Virginia  
February 22, 2021

We have served as the Company's auditor since 2008.

**DISCOVERY, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(in millions, except par value)

	December 31,	
	2020	2019
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 2,091	\$ 1,552
Receivables, net	2,537	2,633
Content rights and prepaid license fees, net	532	579
Prepaid expenses and other current assets	970	453
Total current assets	6,130	5,217
Noncurrent content rights, net	3,439	3,129
Property and equipment, net	1,206	951
Goodwill	13,070	13,050
Intangible assets, net	7,640	8,667
Equity method investments	507	568
Other noncurrent assets	2,095	2,153
Total assets	<u>\$ 34,087</u>	<u>\$ 33,735</u>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 397	\$ 463
Accrued liabilities	1,793	1,678
Deferred revenues	557	489
Current portion of debt	335	609
Total current liabilities	3,082	3,239
Noncurrent portion of debt	15,069	14,810
Deferred income taxes	1,534	1,691
Other noncurrent liabilities	2,019	2,029
Total liabilities	21,704	21,769
Commitments and contingencies (See Note 22)		
Redeemable noncontrolling interests	383	442
Equity:		
Discovery, Inc. stockholders' equity:		
Series A-1 convertible preferred stock: \$0.01 par value; 8 shares authorized, issued and outstanding	—	—
Series C-1 convertible preferred stock: \$0.01 par value; 6 shares authorized; 5 shares issued and outstanding	—	—
Series A common stock: \$0.01 par value; 1,700 shares authorized; 163 and 161 shares issued; and 162 and 158 shares outstanding	2	2
Series B convertible common stock: \$0.01 par value; 100 shares authorized; 7 shares issued and outstanding	—	—
Series C common stock: \$0.01 par value; 2,000 shares authorized; 547 shares issued; and 318 and 360 shares outstanding	5	5
Additional paid-in capital	10,809	10,747
Treasury stock, at cost: 230 and 190 shares	(8,244)	(7,374)
Retained earnings	8,543	7,333
Accumulated other comprehensive loss	(651)	(822)
Total Discovery, Inc. stockholders' equity	10,464	9,891
Noncontrolling interests	1,536	1,633
Total equity	12,000	11,524
Total liabilities and equity	<u>\$ 34,087</u>	<u>\$ 33,735</u>

The accompanying notes are an integral part of these consolidated financial statements.

**DISCOVERY, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(in millions, except per share amounts)

	Year Ended December 31,		
	2020	2019	2018
<b>Revenues:</b>			
Advertising	\$ 5,583	\$ 6,044	\$ 5,514
Distribution	4,866	4,835	4,538
Other	222	265	501
<b>Total revenues</b>	<b>10,671</b>	<b>11,144</b>	<b>10,553</b>
<b>Costs and expenses:</b>			
Costs of revenues, excluding depreciation and amortization	3,860	3,819	3,935
Selling, general and administrative	2,722	2,788	2,620
Depreciation and amortization	1,359	1,347	1,398
Impairment of goodwill and other intangible assets	124	155	—
Restructuring and other charges	91	26	750
Gain on disposition	—	—	(84)
<b>Total costs and expenses</b>	<b>8,156</b>	<b>8,135</b>	<b>8,619</b>
<b>Operating income</b>	<b>2,515</b>	<b>3,009</b>	<b>1,934</b>
Interest expense, net	(648)	(677)	(729)
Loss on extinguishment of debt	(76)	(28)	—
Loss from equity investees, net	(105)	(2)	(63)
Other income (expense), net	42	(8)	(120)
<b>Income before income taxes</b>	<b>1,728</b>	<b>2,294</b>	<b>1,022</b>
Income tax expense	(373)	(81)	(341)
<b>Net income</b>	<b>1,355</b>	<b>2,213</b>	<b>681</b>
Net income attributable to noncontrolling interests	(124)	(128)	(67)
Net income attributable to redeemable noncontrolling interests	(12)	(16)	(20)
<b>Net income available to Discovery, Inc.</b>	<b>\$ 1,219</b>	<b>\$ 2,069</b>	<b>\$ 594</b>
<b>Net income per share available to Discovery, Inc. Series A, B and C common stockholders:</b>			
Basic	\$ 1.82	\$ 2.90	\$ 0.86
Diluted	\$ 1.81	\$ 2.88	\$ 0.86
<b>Weighted average shares outstanding:</b>			
Basic	505	529	498
Diluted	672	711	688

The accompanying notes are an integral part of these consolidated financial statements.

**DISCOVERY, INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
(in millions)

	Year Ended December 31,		
	2020	2019	2018
Net income	\$ 1,355	\$ 2,213	\$ 681
Other comprehensive income (loss) adjustments, net of tax:			
Currency translation	292	(15)	(189)
Pension plan and SERP	(8)	(10)	3
Derivatives	(113)	18	12
Comprehensive income	1,526	2,206	507
Comprehensive income attributable to noncontrolling interests	(124)	(127)	(67)
Comprehensive income attributable to redeemable noncontrolling interests	(12)	(17)	(20)
Comprehensive income attributable to Discovery, Inc.	<u>\$ 1,390</u>	<u>\$ 2,062</u>	<u>\$ 420</u>

The accompanying notes are an integral part of these consolidated financial statements.

**DISCOVERY, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in millions)

	Year Ended December 31,		
	2020	2019	2018
<b>Operating Activities</b>			
Net income	\$ 1,355	\$ 2,213	\$ 681
Adjustments to reconcile net income to cash provided by operating activities:			
Content rights amortization and impairment	2,956	2,853	3,288
Depreciation and amortization	1,359	1,347	1,398
Deferred income taxes	(186)	(504)	(131)
Equity in losses of equity method investee companies, including cash distributions	167	62	138
Loss on extinguishment of debt	76	28	—
Share-based compensation expense	110	142	80
Impairment of goodwill and other intangible assets	124	155	—
(Gain) loss from derivative instruments, net	(36)	48	(15)
Realized gain on sale of investments	(103)	(10)	—
Remeasurement gain on previously held equity interests	—	(14)	—
Loss (gain) on disposition	2	—	(84)
Other, net	14	52	141
Changes in operating assets and liabilities, net of acquisitions and dispositions:			
Receivables, net	105	(7)	(84)
Content rights and payables, net	(3,053)	(3,060)	(2,883)
Accounts payable and accrued liabilities	(131)	122	(74)
Foreign currency, prepaid expenses and other assets, net	(20)	(28)	121
Cash provided by operating activities	2,739	3,399	2,576
<b>Investing Activities</b>			
Purchases of property and equipment	(402)	(289)	(147)
Purchases of investments	(250)	—	—
Investments in and advances to equity investments	(181)	(254)	(61)
Proceeds from dissolution of joint venture and sale of investments	69	125	—
Business acquisitions, net of cash acquired	(39)	(73)	(8,565)
Proceeds from dispositions, net of cash disposed	—	—	107
Other investing activities, net	100	53	73
Cash used in investing activities	(703)	(438)	(8,593)
<b>Financing Activities</b>			
Principal repayments of debt, including discount payment	(2,193)	(2,658)	(16)
Borrowings from debt, net of discount and issuance costs	1,979	1,479	—
Repurchases of stock	(969)	(633)	—
Principal repayments of revolving credit facility	(500)	(225)	(200)
Borrowings under revolving credit facility	500	—	—
Distributions to noncontrolling interests and redeemable noncontrolling interests	(254)	(250)	(76)
Borrowings under term loan facilities	—	—	2,000
Principal repayments of term loans	—	—	(2,000)
Other financing activities, net	(112)	(70)	9
Cash used in financing activities	(1,549)	(2,357)	(283)
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	83	(38)	(23)
Net change in cash, cash equivalents, and restricted cash	570	566	(6,323)
Cash, cash equivalents, and restricted cash, beginning of period	1,552	986	7,309
Cash, cash equivalents, and restricted cash, end of period	\$ 2,122	\$ 1,552	\$ 986

The accompanying notes are an integral part of these consolidated financial statements.

**DISCOVERY, INC.**  
**CONSOLIDATED STATEMENTS OF EQUITY**  
(in millions)

	Preferred Stock		Common Stock		Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Discovery, Inc. Stockholders' Equity	Noncontrolling Interests	Total Equity
	Shares	Par Value	Shares	Par Value							
December 31, 2017	14	\$ —	547	\$ 5	\$ 7,295	\$ (6,737)	\$ 4,632	\$ (585)	\$ 4,610	\$ —	\$ 4,610
Cumulative effect of accounting changes	—	—	—	—	—	—	33	(26)	7	—	7
Net income available to Discovery, Inc. and attributable to noncontrolling interests	—	—	—	—	—	—	594	—	594	67	661
Other comprehensive loss	—	—	—	—	—	—	—	(174)	(174)	—	(174)
Share-based compensation	—	—	—	—	82	—	—	—	82	—	82
Tax settlements associated with share-based plans	—	—	—	—	(18)	—	—	—	(18)	—	(18)
Issuance of stock and noncontrolling interest in connection with the acquisition of Scripps Networks Interactive, Inc. ("Scripps Networks")	—	—	139	1	3,217	—	—	—	3,218	1,700	4,918
Dividends paid to noncontrolling interests	—	—	—	—	—	—	—	—	—	(51)	(51)
Redeemable noncontrolling interest adjustments to redemption value	—	—	—	—	—	—	(5)	—	(5)	—	(5)
Issuance of stock in connection with share-based plans	—	—	5	1	71	—	—	—	72	—	72
December 31, 2018	14	—	691	7	10,647	(6,737)	5,254	(785)	8,386	1,716	10,102
Cumulative effect of accounting changes	—	—	—	—	—	—	34	(30)	4	—	4
Net income available to Discovery, Inc. and attributable to noncontrolling interests	—	—	—	—	—	—	2,069	—	2,069	128	2,197
Other comprehensive loss	—	—	—	—	—	—	—	(7)	(7)	—	(7)
Preferred stock conversion	(1)	—	22	—	—	—	—	—	—	—	—
Share-based compensation	—	—	—	—	73	—	—	—	73	—	73
Repurchases of stock	—	—	—	—	—	(637)	—	—	(637)	—	(637)
Settlement of common stock repurchase contract	—	—	—	—	5	—	—	—	5	—	5
Tax settlements associated with share-based plans	—	—	—	—	(22)	—	—	—	(22)	—	(22)
Dividends paid to noncontrolling interests	—	—	—	—	—	—	—	—	—	(211)	(211)
Issuance of stock in connection with share-based plans	—	—	2	—	44	—	—	—	44	—	44
Redeemable noncontrolling interest adjustments to redemption value	—	—	—	—	—	—	(24)	—	(24)	—	(24)
December 31, 2019	13	—	715	7	10,747	(7,374)	7,333	(822)	9,891	1,633	11,524
Cumulative effect of an accounting change (See Note 2)	—	—	—	—	—	—	2	—	2	—	2
Cumulative effect of accounting changes of an equity method investee	—	—	—	—	—	—	(3)	—	(3)	—	(3)
Net income available to Discovery, Inc. and attributable to noncontrolling interests	—	—	—	—	—	—	1,219	—	1,219	124	1,343
Other comprehensive income	—	—	—	—	—	—	—	171	171	—	171
Share-based compensation	—	—	—	—	94	—	—	—	94	—	94
Repurchases of stock	—	—	—	—	—	(965)	—	—	(965)	—	(965)
Equity exchange with Harpo for step acquisition of OWN (See Note 11)	—	—	—	—	(45)	95	9	—	59	—	59
Tax settlements associated with share-based plans	—	—	—	—	(32)	—	—	—	(32)	—	(32)
Dividends paid to noncontrolling interests	—	—	—	—	—	—	—	—	—	(223)	(223)
Issuance of stock in connection with share-based plans	—	—	2	—	43	—	—	—	43	—	43
Redeemable noncontrolling interest adjustments to redemption value	—	—	—	—	—	—	(17)	—	(17)	—	(17)
Other adjustments to stockholders' equity	—	—	—	—	2	—	—	—	2	2	4
December 31, 2020	13	\$ —	717	\$ 7	\$ 10,809	\$ (8,244)	\$ 8,543	\$ (651)	\$ 10,464	\$ 1,536	\$ 12,000

The accompanying notes are an integral part of these consolidated financial statements.

**NOTE 1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION**

**Description of Business**

Discovery, Inc. ("Discovery", the "Company", "we", "us" or "our") is a global media company that provides content across multiple distribution platforms, including linear platforms such as pay-television ("pay-TV"), free-to-air ("FTA") and broadcast television, authenticated GO applications, digital distribution arrangements, content licensing arrangements and direct-to-consumer (DTC) subscription products. The Company also operates production studios. The Company has organized its operations into two reportable segments: U.S. Networks, consisting principally of domestic television networks and digital content services, and International Networks, consisting primarily of international television networks and digital content services.

**Basis of Consolidation**

The consolidated financial statements include the accounts of Discovery and its majority-owned subsidiaries in which a controlling interest is maintained, including variable interest entities ("VIE") for which the Company is the primary beneficiary.

For each non-wholly owned subsidiary, the Company evaluates its ownership and other interests to determine whether it should consolidate the entity or account for its ownership interest as an investment. As part of its evaluation, the Company makes judgments in determining whether the entity is a VIE and, if so, whether it is the primary beneficiary of the VIE and is thus required to consolidate the entity. (See Note 4.) If it is concluded that an entity is not a VIE, then the Company considers its proportional voting interests in the entity. The Company consolidates majority-owned subsidiaries in which a controlling financial interest is maintained. A controlling financial interest is determined by majority ownership and the absence of significant third-party participating rights. Ownership interests in entities for which the Company has significant influence that are not consolidated are accounted for as equity method investments.

Intercompany accounts and transactions between consolidated entities have been eliminated.

**Use of Estimates**

The preparation of financial statements in accordance with U.S. generally accepted accounting principles ("GAAP") requires management to make estimates, judgments and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results may differ from these estimates.

Significant estimates and judgments inherent in the preparation of the consolidated financial statements include accounting for asset impairments, revenue recognition, estimated credit losses, content rights, leases, depreciation and amortization, business combinations, share-based compensation, defined benefit plans, income taxes, other financial instruments, contingencies, and the determination of whether the Company should consolidate certain entities.

**Impact of COVID-19**

On March 11, 2020, the World Health Organization declared the coronavirus disease 2019 ("COVID-19") outbreak to be a global pandemic. COVID-19 continues to spread throughout the world, and the duration and severity of its effects and associated economic disruption remain uncertain. Restrictions on social and commercial activity in an effort to contain the virus have had, and are expected to continue to have, a significant adverse impact upon many sectors of the U.S. and global economy, including the media industry. The Company continues to closely monitor the impact of COVID-19 on all aspects of its business and geographies, including the impact on its customers, employees, suppliers, vendors, distribution and advertising partners, production facilities, and various other third parties.

Beginning in the second quarter of 2020, demand for the Company's advertising products and services decreased due to economic disruptions from limitations on social and commercial activity. These economic disruptions and the resulting effect on the Company slightly eased during the second half of 2020, but the pandemic continued to impact demand through the end of 2020 and this decreased demand is expected to continue into 2021. Many of the Company's third-party production partners that were shut down during most of the second quarter of 2020 due to COVID-19 restrictions came back online in the third quarter of 2020 and, as a result, the Company has incurred additional costs to comply with various governmental regulations and implement certain safety measures for the Company's employees, talent, and partners. Additionally, certain sporting events that the Company has rights to were cancelled or postponed, thereby eliminating or deferring the related revenues and expenses, including the Tokyo 2020 Olympic Games, which were postponed to 2021. The postponement of the Olympic Games deferred both Olympic-related revenues and significant expenses from fiscal year 2020 to fiscal year 2021.

**DISCOVERY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

In response to the impact of the pandemic, the Company employed and continues to employ innovative production and programming strategies, including producing content filmed by its on-air talent and seeking viewer feedback on which content to air. The Company continues to pursue a number of cost savings initiatives which began during the third and fourth quarters of 2020 and believes will offset a portion of anticipated revenue losses and deferrals, through the implementation of travel, marketing, production and other operating cost reductions, including personnel reductions, restructurings and resource reallocations to align its expense structure to ongoing changes within the industry. The Company also implemented remote work arrangements effective mid-March 2020 and, to date, these arrangements have not materially affected the Company's ability to operate its business.

In addition, the Company implemented several measures to preserve sufficient liquidity in the near term. As described further in Note 8, during March 2020, the Company drew down \$500 million under its \$2.5 billion revolving credit facility to increase its cash position and maximize flexibility in light of the current uncertainty surrounding the impact of COVID-19. In addition, in April 2020, the Company entered into an amendment to its revolving credit facility, which increased flexibility under its financial covenants and issued \$1.0 billion aggregate principal amount of Senior Notes due May 2030 and \$1.0 billion aggregate principal amount of Senior Notes due May 2050. The proceeds from the notes were used to fund a tender offer for \$1.5 billion of certain senior notes with maturities ranging from 2021 through 2023 and to repay the \$500 million outstanding under its revolving credit facility. (See Note 8.)

In light of the impact of COVID-19, the Company assessed goodwill, other intangibles, deferred tax assets, programming assets, and accounts receivable for recoverability based upon latest estimates and judgments with respect to expected future operating results, ultimate usage of content and latest expectations with respect to expected credit losses. The Company recorded goodwill and other intangible assets impairment charges of \$124 million for its Asia-Pacific reporting unit during the year ended December 31, 2020. (See Note 7.) Adjustments to reflect increased expected credit losses were not material. Further, hedged transactions were assessed and the Company has concluded such transactions remain probable of occurrence. Due to significant uncertainty surrounding the impact of COVID-19, management's judgments could change in the future. The effects of the pandemic may have further negative impacts on the Company's financial position, results of operations, and cash flows. However, the current level of uncertainty over the economic and operational impacts of COVID-19 means the related financial impact cannot be reasonably and fully estimated at this time.

The nature and extent of COVID-19's effects on the Company's operations and results will depend on future developments, which are highly uncertain and cannot be predicted, including new information that may emerge concerning the severity and the extent of future surges of COVID-19, vaccine distribution and other actions to contain the virus or treat its impact, among others. The Company will continue to monitor COVID-19 and its impact on the Company's business results and financial condition. These consolidated financial statements reflect management's latest estimates and assumptions that affect the reported amounts of assets and liabilities and related disclosures as of the date of the consolidated financial statements and reported amounts of revenue and expenses during the reporting periods presented. Actual results may differ significantly from these estimates and assumptions.

In the United States, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was enacted on March 27, 2020, and the Consolidated Appropriations Act, 2021 was enacted on December 27, 2020. As of December 31, 2020, the Company does not expect the CARES Act or the Consolidated Appropriations Act, 2021 to have a material effect on its financial position and results of operations. The Company continues to monitor other relief measures taken by the U.S. and other governments around the world.

## **NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Foreign Currency**

The reporting currency of the Company is the U.S. dollar. The functional currency of most of the Company's international subsidiaries is the local currency. Financial statements of subsidiaries whose functional currency is not the U.S. dollar are translated at exchange rates in effect at the balance sheet date for assets and liabilities and at average exchange rates for revenues and expenses for the respective periods. Cash flows from the Company's operations in foreign countries are generally translated at the weighted average rate for the applicable period in the consolidated statements of cash flows. Such translation adjustments are recorded in accumulated other comprehensive income.

**DISCOVERY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The Company is exposed to foreign currency risk to the extent that it enters into transactions denominated in currencies other than its subsidiaries' respective functional currencies. Transactions denominated in currencies other than subsidiaries' functional currencies are recorded based on exchange rates at the time such transactions arise. Such transactions include affiliate and ad sales arrangements, content arrangements, equipment and other vendor purchases and intercompany transactions. Changes in exchange rates with respect to amounts recorded in the Company's consolidated balance sheets related to these items will result in unrealized foreign currency transaction gains and losses based upon period-end exchange rates. The Company also records realized foreign currency transaction gains and losses upon settlement of the transactions. Foreign currency transaction gains and losses resulting from the conversion of the transaction currency to functional currency are included in other income (expense), net.

**Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand and highly liquid investments with original maturities of 90 days or less.

**Receivables**

Receivables include amounts billed and currently due from customers and are presented net of an estimate for credit losses. To assess collectability, the Company analyzes market trends, economic conditions, the aging of receivables and customer specific risks, and reserves an amount that it estimates may not be collected. The Company does not require collateral with respect to trade receivables.

**Content Rights**

Content rights principally consist of television series, specials, films and sporting events. Content aired on the Company's television networks and digital content offerings is sourced from a wide range of third-party producers, wholly-owned and equity method investee production studios, and sports associations. Content is classified either as produced, coproduced or licensed.

The Company owns most or all of the rights to produced content. The Company collaborates with third parties to finance and develop coproduced content, and it retains significant rights to exploit the programs. Prepaid licensed content includes advance payments for rights to air sporting events that will take place in the future and advance payments for acquired films and television series.

Costs of produced and coproduced content consist of development costs, acquired production costs, direct production costs, certain production overhead costs and participation costs. The Company's coproduction arrangements generally provide for the sharing of production costs. The Company records its costs but does not record the costs borne by the other party as the Company does not share any associated economics of exploitation.

Licensed content is comprised of films or series that have been previously produced by third parties and the Company retains limited airing rights over a contractual term. Program licenses typically have fixed terms and require payments during the term of the license. The cost of licensed content is capitalized when the cost is known or reasonably determinable, the license period for the programs has commenced, the program materials have been accepted by the Company in accordance with the license agreements, and the programs are available for the first showing. The Company pays in advance of delivery for television series, specials, films and sports rights. Payments made in advance of when the right to air the content is received are recognized as prepaid licensed content. Participation costs are expensed in line with the amortization of production costs. Content distribution, advertising, marketing, general and administrative costs are expensed as incurred.

Linear content amortization expense for each period is recognized based on the revenue forecast model, which approximates the proportion that estimated distribution and advertising revenues for the current period represent in relation to the estimated remaining total lifetime revenues. Digital content amortization for each period is recognized based on estimated viewing patterns as there are no direct revenues to associate to the individual content assets and therefore, number of views is most representative of the use of the title. Judgment is required to determine the useful lives and amortization patterns of the Company's content assets.

**DISCOVERY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Quarterly, the Company prepares analyses to support its content amortization expense. Critical assumptions used in determining content amortization include: (i) the grouping of content with similar characteristics, (ii) the application of a quantitative revenue forecast model or viewership model based on the adequacy of historical data, (iii) determining the appropriate historical periods to utilize and the relative weighting of those historical periods in the forecast model, (iv) assessing the accuracy of the Company's forecasts and (v) incorporating secondary streams. The Company then considers the appropriate application of the quantitative assessment given forecasted content use, expected content investment and market trends. Content use and future revenues may differ from estimates based on changes in expectations related to market acceptance, network affiliate fee rates, advertising demand, the number of cable and satellite television subscribers receiving the Company's networks, the number of subscribers to its digital services, and program usage. Accordingly, the Company continually reviews its estimates and planned usage and revises its assumptions if necessary. As part of the Company's assessment of its amortization rates, the Company compares the calculated amortization rates to those that have been utilized during the year. If the calculated rates do not deviate materially from the applied amortization rates, no adjustment is recorded. Any material adjustments from the Company's review of the amortization rates are applied prospectively in the period of the change for assets in film groups, which represent the largest proportion of the Company's content assets.

The result of the content amortization analysis is either an accelerated method or a straight-line amortization method over the estimated useful lives of generally two to four years. Amortization of capitalized costs for produced and coproduced content begins when a program has been aired. Amortization of capitalized costs for licensed content generally commences when the license period begins and the program is available for use. The Company allocates the cost of multi-year sports programming arrangements over the contract period of each event or season based on the estimated relative value of each event or season. Amortization of sports rights takes place when the content airs.

Capitalized content costs are stated at the lower of cost less accumulated amortization or fair value. Content assets (produced, coproduced and licensed) are predominantly monetized as a group on the Company's linear networks and digital content offerings. For content assets that are predominantly monetized within film groups, the Company evaluates the fair value of content in aggregate at the group level by considering expected future revenue generation typically by using a discounted cash flow analysis when an event or change in circumstances indicates a change in the expected usefulness of the content or that the fair value may be less than unamortized costs. Estimates of future revenues consider historical airing patterns and future plans for airing content, including any changes in strategy. Given the significant estimates and judgments involved, actual demand or market conditions may be less favorable than those projected, requiring a write-down to fair value. Programming and development costs for programs that the Company has determined will not be produced, are fully expensed in the period the determination is made. The Company's film groups are generally aligned along the Company's networks and digital content offerings except for certain international territories wherein content assets are shared across the various networks in the territory and therefore, the territory is the film group. The Company's rights to the Olympic Games are predominantly monetized on their own as the sublicensing of the rights in certain territories is a significant component of the monetization strategy. Beginning in 2020, all content rights and prepaid license fees are classified as a noncurrent asset, with the exception of content acquired with an initial license period of 12 months or less and prepaid sports rights expected to air within 12 months. (See "Accounting and Reporting Pronouncements Adopted" below and Note 6.)

### **Investments**

The Company holds investments in equity method investees and equity investments with and without readily determinable fair values.

#### ***Equity Method Investments***

Investments in equity method investees are those for which the Company has the ability to exercise significant influence but does not control and is not the primary beneficiary. Under this method of accounting, the Company typically records its proportionate share of the net earnings or losses of equity method investees and a corresponding increase or decrease to the investment balances. Cash payments to equity method investees such as additional investments, loans and advances and expenses incurred on behalf of investees, as well as payments from equity method investees such as dividends, distributions and repayments of loans and advances are recorded as adjustments to investment balances.

**DISCOVERY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For certain of the Company's equity method investments, such as investments in renewable energy limited liability companies where the capital structure of the equity investment results in different liquidation rights and priorities than what is reflected by the underlying percentage ownership interests, the Company's proportionate share of net earnings is accounted for using the Hypothetical Liquidation at Book Value ("HLBV") methodology available under the equity method of accounting. When applying HLBV, the Company determines the amount that would be received if the investment were to liquidate all of its assets and distribute the resulting cash to the investors based on contractually defined liquidation priorities. The change in the Company's claim on the investee's book value in accordance with GAAP at the beginning and the end of the reporting period, after adjusting for any contributions or distributions, is the Company's share of the earnings or losses for the period.

The Company evaluates its equity method investments for impairment whenever events or changes in circumstances indicate that the carrying amounts of such investments may not be recoverable. (See "Asset Impairment Analysis" below.)

***Equity Investments with Readily Determinable Fair Values***

Investments in entities or other securities in which the Company has no control or significant influence, is not the primary beneficiary, and have a readily determinable fair value are recorded at fair value based on quoted market prices and are classified as equity securities or equity investments with readily determinable fair value. (See Note 4.) For equity securities with readily determinable fair value, realized gains and losses are recorded in other income (expense), net. (See Note 20.)

***Equity Investments without Readily Determinable Fair Values***

Equity investments without readily determinable fair value include ownership rights that either (i) do not meet the definition of in-substance common stock or (ii) do not provide the Company with control or significant influence and these investments do not have readily determinable fair values. Equity investments without readily determinable fair value are recorded at cost, less any impairment, and adjusted for subsequent observable price changes as of the date that an observable transaction takes place and are recorded in other income (expense), net. (See Note 20.)

**Property and Equipment**

Property and equipment are stated at cost less accumulated depreciation and impairments. Internal use software costs are capitalized during the application development stage. Software costs incurred during the preliminary project and post implementation stages are expensed as incurred. Repairs and maintenance expenditures that do not enhance the use or extend the life of property and equipment are expensed as incurred. Depreciation for most property and equipment is recognized using the straight-line method over the estimated useful lives of the assets. (See Note 20.)

**Leases**

The Company determines if an arrangement is a lease at its inception. Operating lease right-of-use ("ROU") assets are included in "Other noncurrent assets" and operating lease liabilities are included in "Accrued liabilities" and "Other noncurrent liabilities" in the consolidated balance sheets. Finance lease ROU assets are included in "Property and equipment, net" and finance lease liabilities are included in "Accrued liabilities" and "Other noncurrent liabilities" in the consolidated balance sheets.

A rate implicit in the lease when readily determinable is used in arriving at the present value of lease payments. As most of the Company's leases do not provide an implicit rate, the Company uses an incremental borrowing rate based on information available at lease commencement date for most of its leases. The incremental borrowing rate is based on the Company's U.S. dollar denominated senior unsecured borrowing curves using public credit ratings adjusted down to a collateralized basis using a combination of recovery rate and credit notching approaches and translated into major contract currencies as applicable.

The Company's lease terms may include options to extend or terminate the lease when it is reasonably certain that it will exercise that option. The Company does not separate lease components from non-lease components across all lease categories. Instead, each separate lease component and non-lease component are accounted for as a single lease component. In addition, variable lease payments that are based on an index or rate are included in measurement of ROU assets and lease liabilities at lease inception. All other variable lease payments are expensed as incurred and are not included in measurement of ROU assets and lease liabilities. Lease expense for operating leases is recognized on a straight-line basis. For finance leases, the Company recognizes interest expense on lease liabilities using the effective interest method and amortization of ROU assets on a straight-line basis.

## Asset Impairment Analysis

### *Goodwill and Indefinite-lived Intangible Assets*

Goodwill is allocated to the Company's reporting units, which are its operating segments or one level below its operating segments. The Company evaluates goodwill and other indefinite-lived intangible assets for impairment annually as of October 1 or earlier if an event or other circumstance indicates that it may not recover the carrying value of the asset. If the Company believes that, as a result of its qualitative assessment, it is more likely than not that the fair value of a reporting unit or other indefinite-lived intangible asset is greater than its carrying amount, the quantitative impairment test is not required. If a qualitative assessment indicates that it is more likely than not that the carrying value of a reporting unit goodwill or other indefinite-lived intangible asset exceeds its fair value, a quantitative impairment test is performed. If the carrying amount of the reporting unit exceeds the fair value of the reporting unit, an impairment charge is recorded for the amount by which the carrying amount exceeds the fair value, not to exceed the amount of goodwill recorded for that reporting unit. The Company has applied the provisions of ASU 2017-04 to quantitative goodwill impairment assessments performed in 2020. (See "Accounting and Reporting Pronouncements Adopted" below and Note 7.)

The Company performs a quantitative impairment test every three years, irrespective of the outcome of the Company's qualitative assessment. During 2019, the Company changed its annual impairment testing date from November 30 to October 1. The Company believes the new date is preferable because it aligns the impairment test with the budgeting and quarter-end closing processes. The Company determined it was impracticable to apply the change in accounting principle retrospectively because it could not determine the goodwill estimate for each reporting unit at the new annual goodwill impairment testing date without the use of hindsight. Accordingly, the Company applied the change in accounting principle prospectively. The change in the annual impairment testing date did not delay, accelerate or avoid an impairment charge.

### *Long-lived Assets*

Long-lived assets such as amortizing trademarks, customer lists, other intangible assets, and property and equipment are not required to be tested for impairment annually, but rather are tested for impairment whenever circumstances indicate that the carrying amount of the asset may not be recoverable. If an impairment analysis is required, the impairment test employed is based on whether the Company's intent is to hold the asset for continued use or to hold the asset for sale. If the intent is to hold the asset for continued use, the impairment test requires a comparison of undiscounted future cash flows to the carrying value of the asset. If the carrying value of the asset exceeds the undiscounted cash flows, an impairment loss would be recognized equal to the excess of the asset's carrying value over its fair value, which is typically determined by discounting the future cash flows associated with that asset. If the intent is to hold the asset for sale and certain other criteria are met, the impairment test involves comparing the asset's carrying value to its fair value less costs to sell. If the carrying value of the asset exceeds the fair value, an impairment loss would be recognized equal to the difference. Significant judgments used for long-lived asset impairment assessments include identifying the appropriate asset groupings and primary assets within those groupings, determining whether events or circumstances indicate that the carrying amount of the asset may not be recoverable, determining the future cash flows for the assets involved and assumptions applied in determining fair value, which include reasonable discount rates, growth rates, market risk premiums and other assumptions about the economic environment.

### *Equity Method Investments and Equity Investments Without Readily Determinable Fair Value*

Equity method investments are reviewed for indicators of other-than-temporary impairment on a quarterly basis. Equity method investments are written down to fair value if there is evidence of a loss in value that is other-than-temporary. The Company may estimate the fair value of its equity method investments by considering recent investee equity transactions, discounted cash flow analysis, recent operating results, comparable public company operating cash flow multiples and in certain situations, balance sheet liquidation values. If the fair value of the investment has dropped below the carrying amount, management considers several factors when determining whether an other-than-temporary decline has occurred, such as the length of the time and the extent to which the estimated fair value or market value has been below the carrying value, the financial condition and the near-term prospects of the investee, the intent and ability of the Company to retain its investment in the investee for a period of time sufficient to allow for any anticipated recovery in market value and general market conditions. The estimation of fair value and whether an other-than-temporary impairment has occurred requires the application of significant judgment and future results may vary from current assumptions. If declines in the value of the equity method investments are determined to be other-than-temporary, a loss is recorded in earnings in the current period as a component of loss from equity investees, net on the consolidated statements of operations.

**DISCOVERY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For equity investments without readily determinable fair value, investments are recorded at cost, less impairment, adjusted for subsequent observable price changes as of the date that an observable transaction takes place. The Company performs a qualitative assessment on a quarterly basis to determine if an investment is impaired. If the qualitative assessment indicates that an investment is impaired, a loss is recorded equal to the difference between the fair value and carrying value in the current period as a component of other income (expense), net. (See Note 4.)

**Derivative Instruments**

The Company uses derivative financial instruments to modify its exposure to market risks from changes in foreign currency exchange rates, interest rates and from market volatility related to certain equity investments measured at fair value. At the inception of a derivative contract, the Company designates the derivative as one of three types based on the Company's intentions and expectations as to the likely effectiveness as a hedge. The three types are:

- (1) a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow hedge");
- (2) a hedge of net investments in foreign operations ("net investment hedge"); or
- (3) an instrument with no hedging designation. (See Note 10.)

**Cash Flow Hedges**

The Company designates foreign currency forward and option contracts as cash flow hedges to mitigate foreign currency risk arising from third-party revenue and intercompany licensing agreements. The Company also designates interest rate contracts used to hedge the interest rate risk for certain senior notes and forecasted debt issuances as cash flow hedges. For foreign exchange forward contracts accounted for as cash flow hedges, the entire change in the fair value of the forward contract is recorded in other comprehensive income (loss) and reclassified into the statement of operations in the same line item in which the hedged item is recorded and in the same period as the hedged item affects earnings.

**Net Investment Hedges**

The Company designates cross-currency swaps and foreign currency forward contracts as hedges of net investments in foreign operations. The Company assesses effectiveness for net investment hedges utilizing the spot-method. The entire change in the fair value of derivatives that qualify as net investment hedges is initially recorded in the currency translation adjustment component of other comprehensive income. While the change in fair value attributable to hedge effectiveness remains in accumulated other comprehensive income (loss) until the net investment is sold or liquidated, the change in fair value attributable to components excluded from the assessment of hedge effectiveness (e.g., forward points, cross currency basis, etc.) is reflected as a component of interest expense, net in the current period.

**No Hedging Designation**

The Company may also enter into derivative financial instruments that do not qualify for hedge accounting and are not designated as hedges. These instruments are intended to mitigate economic exposures due to exogenous events and changes in foreign currency exchange rates and interest rates. The changes in fair value of derivatives not designated as hedges are recorded in other income (expense), net.

**Financial Statement Presentation**

Unsettled derivative contracts are recorded at their gross fair values on the consolidated balance sheets. The portion of the fair value that represents cash flows occurring within one year is classified as current, and the portion related to cash flows occurring beyond one year is classified as noncurrent. Gains and losses on designated cash flow and net investment hedges are initially recognized as components of accumulated other comprehensive loss on the consolidated balance sheets and reclassified into the statements of operations in the same line item in which the hedged item is recorded and in the same period as the hedged item affects earnings. The Company records gains and losses for instruments that receive no hedging designation, as a component of other expense, net on the consolidated statements of operations.

Cash flows from designated derivative instruments used as hedges are classified in the consolidated statements of cash flows in the same section as the cash flows of the hedged item. Cash flows from periodic settlement of interest on cross currency swaps and derivative contracts not designated as hedges are reported as investing activities in the consolidated statements of cash flows.

**DISCOVERY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Effective July 1, 2018, the Company early adopted ASU 2017-12. As a result, the Company changed the method by which it assesses effectiveness for net investment hedges from the forward-method to the spot-method. Previous net losses of \$87 million incurred under the forward method related to net investment hedges will remain in other comprehensive loss under the currency translation component and will be reclassified to earnings when the net investment is sold or liquidated.

**Treasury Stock**

When stock is acquired for purposes other than formal or constructive retirement, the purchase price of the acquired stock is recorded in a separate treasury stock account, which is separately reported as a reduction of equity.

When stock is retired or purchased for formal or constructive retirement, the purchase price is initially recorded as a reduction to the par value of the shares repurchased, with any excess purchase price over par value recorded as a reduction to additional paid-in capital related to the series of shares repurchased and any remainder excess purchase price recorded as a reduction to retained earnings. If the purchase price exceeds the amounts allocated to par value and additional paid-in capital related to the series of shares repurchased and retained earnings, the remainder is allocated to additional paid-in capital related to other series of shares.

To determine the cost of treasury stock that is either sold or reissued, the Company uses the last in, first out method. If the proceeds from the re-issuance of treasury stock are greater than the cost, the excess is recorded as additional paid-in capital. If the proceeds from re-issuance of treasury stock are less than the cost, the excess cost first reduces any additional paid-in capital arising from previous treasury stock transactions for that class of stock, and any additional excess is recorded as a reduction of retained earnings.

**Revenue Recognition**

The Company generates revenues principally from: (i) advertising revenue from advertising sold on its television networks, authenticated TVE applications and websites, (ii) distribution revenues from fees charged to distributors of its network content, which include cable, direct-to-home ("DTH") satellite, telecommunications and digital service providers and bundled long-term content arrangements, as well as through DTC subscription services and (iii) other revenue related to several items including: (a) unbundled rights to sales of network content, including sports rights, (b) production studios content development and services, (c) the licensing of the Company's brands for consumer products and (d) affiliate and advertising sales representation services.

Revenue is recognized upon transfer of control of promised services or goods to customers in an amount that reflects the consideration that the Company expects to receive in exchange for those services or goods. Revenues do not include taxes collected from customers on behalf of taxing authorities such as sales tax and value-added tax. However, certain revenues include taxes that customers pay to taxing authorities on the Company's behalf, such as foreign withholding tax. Revenue recognition for each source of revenue is also based on the following policies.

**Advertising**

Advertising revenues are principally generated from the sale of commercial time on linear and digital platforms. A substantial portion of the linear and digital advertising contracts in the U.S. and certain international markets guarantee the advertiser a minimum audience level that either the program in which their advertisements are aired or the advertisement will reach. On the linear platform, the Company provides a service to deliver an advertising campaign which is satisfied by the provision of a minimum number of advertising spots in exchange for a fixed fee over a contract period of one year or less. The Company delivers spots in accordance with these contracts during a variety of day parts and programs. In the agreements governing these advertising campaigns, the Company has also promised to deliver to its customers a guaranteed minimum number of viewers ("impressions") on a specific television network within a particular demographic (e.g. men aged 18-35). These advertising campaigns are considered to represent a single, distinct performance obligation. Revenues are recognized based on the audience level delivered multiplied by the average price per impression. The Company provides the advertiser with advertising until the guaranteed audience level is delivered, and invoiced advertising revenue receivables may exceed the value of the audience delivery. As such, revenues are deferred until the guaranteed audience level is delivered or the rights associated with the guarantee lapse, which is less than one year. Audience guarantees are initially developed internally, based on planned programming, historical audience levels, the success of pilot programs, and market trends. Actual audience and delivery information is published by independent ratings services.

Digital advertising contracts typically contain promises to deliver guaranteed impressions in specific markets against a targeted demographic during a stipulated period of time. If the specified number of impressions is not delivered, the transaction price is reduced by the number of impressions not delivered multiplied by the contractually stated price per impression. Each promise is considered a separate performance obligation. For digital contracts with an audience guarantee, advertising revenues are recognized as impressions are delivered. Actual audience delivery is typically reported by independent third parties.

**DISCOVERY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For contracts without an audience guarantee, advertising revenues are recognized as each spot airs. The airing of individual spots without a guaranteed audience level are each distinct, individual performance obligations. The Company allocates the consideration to each spot based on its relative standalone selling price. Advertising revenues from digital platforms are recognized as impressions are delivered or the services are performed.

***Distribution***

Cable operators, DTH satellite operators and telecommunications service providers typically pay royalties via a per-subscriber fee for the right to distribute the Company's programming under the terms of distribution contracts. The majority of the Company's distribution fees are collected monthly throughout the year and distribution revenue is recognized over the term of the contracts based on contracted programming rates and reported subscriber levels. The amount of distribution fees due to the Company is reported by distributors based on actual subscriber levels. Such information is generally not received until after the close of the reporting period. In these cases, the Company estimates the number of subscribers receiving the Company's programming to estimate royalty revenue. Historical adjustments to recorded estimates have not been material. Distribution revenue from fixed-fee contracts is recognized over the contract term based on the continuous delivery of the content to the affiliate. Any monetary incentives provided to distributors are recognized as a reduction of revenue over the service term.

Although the delivery of linear feeds and digital DTC products, such as video-on-demand ("VOD") and authenticated TVE applications, are considered distinct performance obligations within a distribution arrangement, on demand offerings generally match the programs that are airing on the linear network. Therefore, the Company recognizes revenue for licensing arrangements as the license fee is earned and based on continuous delivery for fixed fee contracts.

For DTC subscription services, the Company recognizes revenue as the license fee is earned over the subscription period.

Revenues associated with digital distribution arrangements are recognized when the Company transfers control of the content and the rights to distribute the content to the customer.

***Other***

License fees from the sublicensing of sports rights are recognized when the rights become available for airing. Revenue from production studios is recognized when the content is delivered and available for airing by the customer. Royalties from brand licensing arrangements are earned as products are sold by the licensee. Affiliate and ad sales representation services are recognized as services are provided.

***Multiple Performance Obligations***

Contracts with customers may include multiple distinct performance obligations. Advertising contracts may include sponsorship, production, or product integration in addition to the airing of spots and/or the satisfaction of an audience guarantee. For such contracts, the contract value is allocated to individual performance obligations and recorded as revenue when each performance obligation has been satisfied and value has been transferred to the customer. Distribution contracts also include multiple performance obligations. The Company also enters into certain distribution contracts that include promises to deliver content libraries. There are generally two types of such arrangements: 1) content licensing arrangements that include subscription video on demand ("SVOD") licensing arrangements and 2) digital DTC content (such as VOD and authenticated TVE applications), which is a performance obligation within the Company's linear distribution arrangements. These contracts vary by customer and in certain instances include a promise by the Company to deliver existing content and new content. For SVOD arrangements, revenue is allocated to each performance obligation based on that performance obligation's relative standalone selling price. In the case of VOD and digital DTC content, content is regularly refreshed over the term of the agreement, as new titles are added and older titles are removed. Consequently, satisfaction of the performance obligations generally occurs in the same pattern as the delivery of the linear feed.

***Deferred Revenue***

Deferred revenue consists of cash received for television advertising for which the guaranteed viewership has not been provided, product licensing arrangements in which fee collections are in excess of the license value provided, and advanced fees received related to the sublicensing of Olympic rights. The amounts classified as current are expected to be earned within the next year.

Payment terms vary by the type and location of the customer and the products or services offered. The term between invoicing and when payment is due is not significant. For certain products or services and customer types, the Company requires payment before the products or services are delivered to the customer.

**Share-Based Compensation Expense**

The Company has incentive plans under which performance-based restricted stock units (“PRSUs”), service-based restricted stock units (“RSUs”), stock options, and stock appreciation rights (“SARs”) are issued. In addition, the Company offers an Employee Stock Purchase Plan (the “ESPP”). Share-based compensation expense for all awards is recorded as a component of selling, general and administrative expense. Forfeitures for all awards are recognized as incurred. Excess tax benefits realized from the exercise of stock options and vested RSUs, PRSUs and the ESPP are reported as cash inflows from operating activities on the consolidated statements of cash flows.

***PRSUs***

Vesting for PRSUs is subject to satisfying objective operating performance conditions or a combination of objective and subjective operating performance conditions. Compensation expense for PRSUs is based on the fair value of the Company’s Series A and C common stock on the date of grant. Compensation expense for PRSUs that vest based on achieving subjective operating performance conditions or in situations where the executive is able to withhold taxes in excess of the maximum statutory requirement, is remeasured at fair value each reporting period until the award is settled. Compensation expense for all PRSUs is recognized ratably, following a graded vesting pattern during the vesting period only when it is probable that the operating performance conditions will be achieved. The Company records a cumulative adjustment to compensation expense for PRSUs if there is a change in the determination of the probability that the operating performance conditions will be achieved.

***RSUs***

Compensation expense for RSUs is based on the fair value of the award on the date of grant and is recognized ratably during the vesting period.

***SARs and Stock Options***

Compensation expense for SARs is based on the fair value of the award. Because certain SARs are cash-settled, the Company remeasures the fair value of these awards each reporting period until settlement. Compensation expense for SARs, including changes in fair value, is recognized during the vesting period in proportion to the requisite service that has been rendered as of the reporting date. For awards with graded vesting, the Company measures fair value and records compensation expense separately for each vesting tranche.

Compensation expense for stock options is based on the fair value of the award on the date of grant and is recognized ratably during the vesting period.

The fair values of SARs and stock options are estimated using the Black-Scholes option-pricing model. Because the Black-Scholes option-pricing model requires the use of subjective assumptions, changes in these assumptions can materially affect the fair value of awards. For SARs, the expected term is the period from the grant date to the end of the contractual term of the award unless the terms of the award allow for cash-settlement automatically on the date the awards vest, in which case the vesting date is used. For stock options the simplified method is utilized to calculate the expected term, since the Company does not have sufficient historical exercise data to provide a reasonable basis upon which to estimate the expected term. The simplified method considers the period from the date of grant through the mid-point between the vesting date and the end of the contractual term of the award. Expected volatility is based on a combination of implied volatilities from traded options on the Company’s common stock and historical realized volatility of the Company’s common stock. The dividend yield is assumed to be zero because the Company has no history of paying cash dividends and no present intention to pay dividends. The risk-free interest rate is based on U.S. Treasury zero-coupon issues with a remaining term equal to the expected term of the award.

***ESPP***

The ESPP enables eligible employees to purchase shares of the Company’s common stock through payroll deductions or other permitted means. The Company recognizes the fair value of the discount associated with shares purchased under the ESPP as share-based compensation expense.

**Advertising Costs**

Advertising costs are expensed as promotional services are delivered and are presented in selling, general and administrative expenses. Advertising costs paid to third parties totaled \$412 million, \$390 million and \$355 million for years ended December 31, 2020, 2019 and 2018, respectively.

### **Income Taxes**

Income taxes are recorded using the asset and liability method of accounting for income taxes. Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred taxes are measured using rates the Company expects to apply to taxable income in years in which those temporary differences are expected to reverse. A valuation allowance is provided for deferred tax assets if it is more likely than not such assets will be unrealized. The Company also engaged in transactions that make the Company eligible for federal investment tax credits. The Company accounts for federal investment tax credits under the flow-through method, under which the tax benefit generated from an investment tax credit is recorded in the period the credit is generated.

From time to time, the Company engages in transactions in which the tax consequences may be uncertain. Significant judgment is required in assessing and estimating the tax consequences of these transactions. The Company prepares and files tax returns based on its interpretation of tax laws and regulations. In the normal course of business, the Company's tax returns are subject to examination by various taxing authorities. Such examinations may result in future tax and interest assessments by these taxing authorities.

In determining the Company's tax provision for financial reporting purposes, the Company establishes a reserve for uncertain tax positions unless the Company determines that such positions are more likely than not to be sustained upon examination based on their technical merits, including the resolution of any appeals or litigation processes. The Company includes interest and where appropriate, penalties, in its tax reserves. There is significant judgment involved in determining the amount of reserve and whether positions taken on the Company's tax returns are more likely than not to be sustained, which involve the use of significant estimates and assumptions with respect to the potential outcome of positions taken on tax returns that may be reviewed by tax authorities. The Company adjusts its tax reserve estimates periodically because of ongoing examinations by, and settlements with, various taxing authorities, as well as changes in tax laws, regulations and interpretations.

### **Concentrations Risk**

#### ***Customers***

The Company has long-term contracts with distributors around the world. For the U.S. Networks segment, 95% of distribution revenue comes from the 10 largest distributors. Agreements in place with the 10 largest cable and satellite operators with the U.S. Networks expire at various times from 2021 through 2023. Although the Company seeks to renew its agreements with its distributors prior to expiration of a contract, a delay in securing a renewal that results in a service disruption, a failure to secure a renewal or a renewal on less favorable terms may have a material adverse effect on the Company's financial condition and results of operations. Not only could the Company experience a reduction in distribution revenue, but it could also experience a reduction in advertising revenue, as viewership is impacted by affiliate subscriber levels.

No individual customer accounted for more than 10% of total consolidated revenues for 2020, 2019 or 2018. As of December 31, 2020 and 2019, the Company's trade receivables do not represent a significant concentration of credit risk as the customers and markets in which the Company operates are varied and dispersed across many geographic areas.

#### ***Financial Institutions***

Cash and cash equivalents are maintained with several financial institutions. The Company has deposits held with banks that exceed the amount of insurance provided on such deposits. Generally, these deposits may be redeemed upon demand and are maintained with financial institutions of reputable credit and, therefore, bear minimal credit risk.

#### ***Counterparty Credit Risk***

The Company is exposed to the risk that the counterparties to outstanding derivative financial instruments will default on their obligations. The Company manages these credit risks through the evaluation and monitoring of the creditworthiness of, and concentration of risk with, the respective counterparties. In this regard, credit risk associated with outstanding derivative financial instruments is spread across a relatively broad counterparty base of banks and financial institutions. The Company also has a limited number of arrangements where collateral is required to be posted in the instance that certain fair value thresholds are exceeded. As of December 31, 2020, the Company had posted \$31 million of collateral under these arrangements. As of December 31, 2020, the Company's exposure to counterparty credit risk included derivative assets with an aggregate fair value of \$97 million. (See Note 10.)

## Accounting and Reporting Pronouncements Adopted

### *Content*

In March 2019, the Financial Standards Accounting Board ("FASB") issued Accounting Standards Update ("ASU") 2019-02, which generally aligns the accounting for production costs of episodic television series with the accounting for production costs of films. In addition, ASU 2019-02 modifies certain aspects of the capitalization, impairment, presentation and disclosure requirements in Accounting Standards Codification ("ASC") 926-20 and the impairment, presentation and disclosure requirements in ASC 920-350. The Company adopted this ASU on January 1, 2020 and will apply the provisions prospectively. In connection with this adoption, the Company elected to treat all content rights and prepaid license fees as a noncurrent asset, with the exception of content acquired with an initial license period of 12 months or less and prepaid sports rights expected to air within 12 months. As of December 31, 2020 and 2019, \$532 million and \$579 million, respectively, of content rights and prepaid license fees were reflected as a current asset. The Company determined that most of its content is exploited as part of film groups. For such content assets, the unit of account for the impairment assessment is the respective film group. There was no material impact upon adoption to the Consolidated Statements of Operations or the Consolidated Statements of Cash Flows. (See Note 6.)

### *Goodwill*

In January 2017, the FASB issued ASU 2017-04, which simplifies the subsequent measurement of goodwill by eliminating Step 2 from the former two-step goodwill impairment test and eliminating the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment. Therefore, an entity will recognize impairment charges for the amount by which the carrying amount exceeds the reporting unit's fair value not to exceed the amount of goodwill recorded for that reporting unit. Goodwill impairment will no longer be measured as the excess of the carrying amount of goodwill over its implied fair value determined by assigning the fair value of a reporting unit to all of its assets and liabilities as if it had been acquired in a business combination. The Company adopted this ASU on January 1, 2020 and has applied the provisions to quantitative goodwill impairment assessments performed in 2020. (See Note 7.)

### *Financial Instruments - Credit Losses*

In June 2016, the FASB issued ASU 2016-13, which changes the impairment model for most financial assets and certain other instruments, including trade and other receivables, held-to-maturity debt securities and loans and replaces the incurred loss methodology with a new, forward-looking "expected loss" model that considers the risk of loss over the asset's contractual life, even if remote, historical experience, current conditions, and reasonable and supportable forecasts of future relevant events. The Company adopted this ASU on January 1, 2020 using a modified retrospective approach and recorded a noncash cumulative effect of adoption as an increase to retained earnings of \$2 million to align its credit loss methodology with the new standard. (See Note 14.)

### *Leases*

In February 2016, the FASB issued ASU 2016-02, which requires lessees to recognize almost all of their leases on the balance sheet by recording a right-of-use asset and lease liability. The guidance also requires improved disclosures to help users of the financial statements better understand the amount, timing, and uncertainty of cash flows arising from leases. The Company adopted ASU 2016-02 effective January 1, 2019 and elected to apply the guidance at the effective date without recasting the comparative periods presented. Additionally, the Company elected to apply practical expedients allowing it to not reassess: 1) whether any expired or existing contracts previously assessed as not containing leases are, or contain, leases; 2) the lease classification for any expired or existing leases; and 3) initial direct costs for any existing leases. The Company also elected to not separate lease components from non-lease components across all lease categories. Instead, each separate lease component and non-lease component are accounted for as a single lease component. The Company did not elect to apply the practical expedient to use hindsight in determining the lease term and in assessing the right-of-use assets for impairment. Additionally, the Company did not elect to apply the short-term lease scope exemption.

### *Revenue from Contracts with Customers*

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers ("Topic 606"), which updates numerous requirements in U.S. GAAP, eliminates industry-specific guidance, and provides companies with a single model for recognizing revenue from contracts with customers. The core principle of Topic 606 is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The guidance also addresses the accounting for costs incurred as part of obtaining or fulfilling a contract with a customer by adding ASC Subtopic 340-40, Other Assets and Deferred Costs: Contracts with Customers, and requiring that costs of obtaining a contract be recognized as an asset and amortized as goods and services are transferred to the customer, as long as the costs are expected to be recovered.

**DISCOVERY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

On January 1, 2018, the Company adopted Topic 606 using the modified retrospective method applied to contracts not completed as of January 1, 2018. Revenues do not include taxes collected from customers on behalf of taxing authorities such as sales tax and value-added tax. However, certain revenues include taxes that customers pay to taxing authorities on the Company's behalf, such as foreign withholding tax.

**Accounting and Reporting Pronouncements Not Yet Adopted**

***LIBOR***

In March 2020, the FASB issued ASU 2020-04, which provides temporary optional expedients and exceptions for applying U.S. GAAP to contract modifications, hedging relationships, and other transactions if certain criteria are met in order to ease the potential accounting and financial reporting burden associated with the expected market transition away from the London Interbank Offered Rate (LIBOR) and other interbank offered rates to alternative reference rates. Additionally, in January 2021, the FASB issued ASU 2021-01, which clarifies the scope of Topic 848 and allows entities to elect certain optional expedients and exceptions when accounting for derivative contracts and certain hedging relationships affected by changes in the interest rates. These ASUs are effective as of March 12, 2020 through December 31, 2022. The Company is currently assessing the impact ASU 2020-04 and ASU 2021-01 will have on its consolidated financial statements and related disclosures, if elected.

***Convertible Instruments***

In August 2020, the FASB issued ASU 2020-06, which simplifies the accounting for convertible instruments by reducing the number of accounting models available for convertible debt instruments and convertible preferred stock. ASU 2020-06 also amends the guidance for the derivatives scope exception for contracts in an entity's own equity to reduce form-over-substance-based accounting conclusions, requires the use of the if-converted method for calculating earnings per share for convertible instruments, and makes targeted improvements to the disclosures for convertible instruments and related earnings per share guidance. This ASU is effective for interim and annual periods beginning after December 15, 2021. Early adoption is permitted, but no earlier than fiscal years beginning after December 15, 2020. The Company is currently assessing the impact ASU 2020-06 will have on its consolidated financial statements and related disclosures.

**NOTE 3. ACQUISITIONS AND DISPOSITIONS**

**Acquisitions**

***UKTV - Lifestyle Business***

On June 11, 2019, the Company and BBC Studios ("BBC") dissolved their 50/50 joint venture, UKTV, a British multi-channel broadcaster, with the Company taking full control of UKTV's three lifestyle channels (the "Lifestyle Business") and BBC taking full control of UKTV's seven entertainment channels (the "Entertainment Business"). Prior to the transaction, the Company held a note receivable from UKTV of \$118 million, which was included in equity method investments in the Company's consolidated balance sheets. Concurrent with the transaction, the note was settled.

To compensate Discovery for the note receivable and for the difference in fair value between the Lifestyle Business and the Entertainment Business retained by BBC, Discovery received cash of \$88 million at closing and a note receivable from BBC of \$130 million, payable in two equal installments. The first installment was received in June 2020 and the second installment is due in June 2021. The Company used a market-based valuation model to determine the fair value of the previously held 50% equity method investment in the Lifestyle Business and recognized a gain of \$5 million during the year ended December 31, 2019 for the difference between the carrying value and the fair value of the of the previously held equity interest. The gain is included in other income (expense), net in the Company's consolidated statement of operations.

The Company applied the acquisition method of accounting to the Lifestyle Business, whereby the excess of the fair value of the business over the fair value of identifiable net assets was allocated to goodwill. The goodwill reflects the workforce and synergies expected from broader exposure to the lifestyle entertainment sector in the U.K. The goodwill recorded as part of this acquisition is included in the International Networks reportable segment and is not amortizable for tax purposes. Intangible assets consist of electronic program guide slots and trademarks and have a weighted average useful life of 6 years. The Company used discounted cash flow ("DCF") analyses, which represent Level 3 fair value measurements, to assess certain components of its purchase price allocation. The measurement period closed in June 2020, with no material adjustments recorded.

**DISCOVERY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The final fair value of Lifestyle Business assets acquired and liabilities assumed, as well as a reconciliation to total assets received in dissolution of the UKTV joint venture, is presented in the table below (in millions).

Cash	\$	17
Content rights		18
Intangible assets		34
Goodwill		121
Accrued liabilities		(12)
Total assets acquired and liabilities assumed in Lifestyle Business		178
Note receivable from BBC		130
Cash received		88
Net assets received in dissolution of UKTV joint venture	\$	396

A summary of total assets derecognized in connection with the dissolution of the UKTV joint venture is presented in the table below (in millions).

Carrying value of UKTV equity method investment	\$	278
Settlement of note receivable		118
Total assets derecognized in dissolution of UKTV joint venture	\$	396

In connection with the above transaction, the Company contemporaneously entered into a ten-year content licensing arrangement with BBC in exchange for license fees over the term.

***Scripps Networks***

On March 6, 2018, Discovery acquired Scripps Networks. The acquisition of Scripps Networks allows the Company to offer complementary brands with an extensive library of original programming to consumers and to become a scale player with the ability to compete for audiences and advertising revenue. The acquisition is intended to extend Scripps Networks' content to a broader international audience through Discovery's global distribution infrastructure. Finally, the acquisition of Scripps Networks has created cost synergies for the Company.

The consideration paid for the acquisition of Scripps Networks consisted of the following:

- (i) for Scripps Networks shareholders that did not make an election or elected to receive the mixed consideration, \$65.82 in cash and 1.0584 shares of Discovery Series C common stock for each Scripps Networks share,
- (ii) for Scripps Networks shareholders that elected to receive the cash consideration, \$90.00 in cash for each Scripps Networks share,
- (iii) for Scripps Networks shareholders that elected to receive the stock consideration, 3.9392 shares of Discovery Series C common stock for each Scripps Networks share, and
- (iv) transaction costs that Discovery paid for costs incurred by Scripps Networks in conjunction with the acquisition.

**DISCOVERY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The following table summarizes the components of the aggregate consideration paid for the acquisition of Scripps Networks (in millions of dollars and shares, except for per share amounts, share conversion ratio and stock option conversion ratio).

<b><i>Scripps Networks equity</i></b>		
Scripps Networks shares outstanding		131
Cash consideration per Scripps Networks share	\$	65.82
Cash portion of consideration	\$	8,590
Scripps Networks shares outstanding		131
Share conversion ratio per Scripps Networks share		1.0584
Discovery Series C common stock		138
Discovery Series C common stock price per share	\$	23.01
Equity portion of consideration	\$	3,179
Shares awarded under Scripps Networks share-based compensation programs		3
Scripps Networks share-based compensation awards converting to cash		2
Average cash consideration per share awarded less applicable exercise price	\$	46.90
Cash portion of consideration	\$	88
Scripps Networks share-based compensation awards		1
Share-based compensation conversion ratio (based on intrinsic value per award)		3
Discovery Series C common stock issued (1) or share-based compensation converted (2)		3
Average equity value (intrinsic value of Discovery Series C common stock or options to be issued)	\$	15.19
Share-based compensation equity value	\$	51
Less: post-combination compensation expense		(12)
Equity portion of consideration		39
Scripps Networks transaction costs paid by Discovery		117
Total consideration paid	\$	<u>12,013</u>

Balances reflect rounding of dollar and share amounts to millions, which may result in differences for recalculated standalone amounts compared with the amounts presented above.

The Company applied the acquisition method of accounting to Scripps Networks' business, whereby the excess of the fair value of the business over the fair value of identifiable net assets was allocated to goodwill. Goodwill reflects workforce and synergies expected from cost savings, operations and revenue enhancements of the combined company that are expected to result from the acquisition. The goodwill recorded as part of this acquisition was allocated to the U.S. Networks and International Networks reportable segments in the amounts of \$5.3 billion and \$817 million, respectively, and is not amortizable for tax purposes.

The Company used DCF analyses, which represent Level 3 fair value measurements, to assess certain components of its purchase price allocation. The fair value of equity interests previously held by Scripps Networks was determined using the discounted cash flow and market value methods. The fair value of trade-names and trademarks was determined using an income approach based on the relief from royalty method; the remaining intangibles were determined using an income approach based on the excess earnings method. The fair value of interest-bearing debt was determined using publicly-traded prices. For the fair value estimates, the Company used: (i) projected discounted cash flows, (ii) historical and projected financial information, (iii) synergies including cost savings, and (iv) attrition rates, as relevant, that market participants would consider when estimating fair values. In March 2019, the Company finalized the fair value of assets acquired and liabilities assumed. Measurement period adjustments were reflected in the periods in which the adjustments occurred. The adjustments resulted from the receipt of additional financial projections associated with certain equity method investments, contingent liability estimates, deferred income tax adjustments, and true-ups for estimated working capital balances. The fair value of assets acquired and liabilities assumed, measurement period adjustments, as well as a reconciliation to consideration paid is presented in the table below (in millions).

**DISCOVERY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

	Preliminary	Measurement Period Adjustments	Final
Accounts receivable	\$ 783	\$ —	\$ 783
Other current assets	421	(9)	412
Content rights	1,088	(14)	1,074
Property and equipment	315	—	315
Goodwill	6,003	154	6,157
Intangible assets	9,175	—	9,175
Equity method investments, including note receivable	870	(157)	713
Other noncurrent assets	111	4	115
Current liabilities assumed	(494)	(105)	(599)
Debt assumed	(2,481)	—	(2,481)
Deferred income taxes	(1,695)	123	(1,572)
Other noncurrent liabilities	(383)	4	(379)
Noncontrolling interests	(1,700)	—	(1,700)
Total consideration paid	<u>\$ 12,013</u>	<u>\$ —</u>	<u>\$ 12,013</u>

The table below presents a summary of intangible assets acquired and weighted average estimated useful life of these assets.

	Fair Value	Weighted Average Useful Life in Years
Trademarks and trade names	\$ 1,225	10
Advertiser relationships	4,995	10
Advertising backlog	280	1
Affiliate relationships	2,455	12
Broadcast licenses	220	6
Total intangible assets acquired	<u>\$ 9,175</u>	

***Magnolia Discovery Ventures***

On July 19, 2019, the Company contributed its linear cable network focused on home improvement, DIY Network, to a new joint venture, Magnolia Discovery Ventures, LLC ("Magnolia"), with Chip and Joanna Gaines acting as Chief Creative Officers to the joint venture. The joint venture is expected to replace and rebrand the DIY Network, and include a TVE app and a subscription streaming service planned for a future date.

Upon formation of Magnolia, Discovery received a 75% ownership interest in the joint venture. In exchange for providing services and exclusivity to the joint venture, the Gaines received a 25% ownership interest in the joint venture, a put right after 6.5 years at fair value, potential for an additional 5% incentive equity, and certain guaranteed payments. Discovery consolidated the joint venture under the voting interest consolidation model. Payments to the Gaines for rendering services in their capacity as the Chief Creative Officers of the joint venture will be accounted for as liability-classified share-based awards to non-employees as services are rendered.

***Golf Digest***

On May 13, 2019, the Company paid \$36 million in cash to acquire Golf Digest, a leading golf brand whose content is available across multiple platforms, including print and social media. The Company applied the acquisition method of accounting to Golf Digest, and recorded net assets of \$36 million, including net working capital liabilities of \$12 million, intangible assets of \$25 million and goodwill of \$23 million. The measurement period closed in May 2020, with no material adjustments recorded. Intangible assets consist of trademarks and trade names and licensing agreements and have a weighted average useful life of 9 years. The goodwill reflects the workforce and synergies expected from broader exposure to the golf entertainment sector. The goodwill recorded as part of this acquisition is included in the International Networks reportable segment and is not amortizable for tax purposes.

**DISCOVERY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

***Play Sports Group Limited***

On January 8, 2019, the Company acquired a controlling interest in Play Sports Group Limited, increasing Discovery's ownership stake from 20.1% to 70.7%. The Company recognized a gain of \$8 million during the year ended December 31, 2019, which represents the difference between the carrying value and the fair value of the previously held 20.1% equity method investment. The gain is included in other income (expense), net in the Company's consolidated statement of operations. The measurement period closed in January 2020, with no material adjustments recorded.

***Other***

During 2018, 2019, and 2020, the Company completed other immaterial acquisitions.

***Pro Forma Financial Information***

The following unaudited pro forma information has been presented as if the acquisition of Scripps Networks occurred on January 1, 2017. Pro forma information for the Company's other acquisitions was not material. The information is based on the historical results of operations of the acquired businesses, adjusted for:

1. The allocation of purchase price and related adjustments, including adjustments to amortization expense related to the fair value of intangible assets acquired and the recognition of the noncontrolling interests;
2. Impacts of debt financing, including interest for debt issued and amortization associated with the fair value adjustments of debt assumed;
3. The movement and allocation of all acquisition-related costs incurred during the year ended December 31, 2018 to the year ended December 31, 2017;
4. Associated tax-related impacts of adjustments; and
5. Changes to align accounting policies.

The pro forma results do not necessarily represent what would have occurred if the acquisition of Scripps Networks had taken place on January 1, 2017, nor do they represent the results that may occur in the future. The pro forma adjustments were based on available information and upon assumptions that the Company believes are reasonable to reflect the impact of this acquisition on the Company's historical financial information on a supplemental pro forma basis (in millions). The following table presents the Company's pro forma combined revenues and net income (in millions, except per share value). Pro forma results for the years ended December 31, 2020 and 2019 are not presented below because the results for Scripps Networks are included in the Company's consolidated statement of operations for those years.

	<b>Year Ended December 31, 2018</b>	
Revenues	\$	11,176
Net income available to Discovery, Inc.		823
Net income per share - basic		1.15
Net income per share - diluted		1.15

***Impact of Business Combination***

The operations of Scripps Networks discussed above were included in the consolidated financial statements as of the acquisition date of March 6, 2018. The following table presents the revenue and earnings for Scripps Networks as reported within the consolidated financial statements (in millions).

	<b>Year ended December 31, 2018</b>	
<b>Revenues:</b>		
Advertising	\$	2,163
Distribution		795
Other		90
<b>Total revenues</b>	<b>\$</b>	<b>3,048</b>
Net income available to Discovery, Inc.	\$	204

**DISCOVERY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Dispositions**

**Education Business**

In 2018, the Company sold an 88% controlling equity stake in its education business to Francisco Partners for a sale price of \$113 million. The Company recorded a gain of \$84 million based on net assets disposed of \$44 million, including \$40 million of goodwill. The impact of the education business on the Company's income before income taxes was a loss of \$2 million for the year ended December 31, 2018. Discovery retained a 12% ownership interest in the education business, which is accounted for as an equity method investment. Discovery has long-term trade name license agreements with the education business that are royalty arrangements at fair value.

**NOTE 4. INVESTMENTS**

The Company's equity investments consisted of the following (in millions).

Category	Balance Sheet Location	Ownership	December 31, 2020	December 31, 2019
Equity method investments:				
nC+	Equity method investments	32%	\$ 164	\$ 182
Discovery Solar Ventures, LLC <sup>(a)</sup>	Equity method investments	N/A	83	92
All3Media	Equity method investments	50%	76	75
Other	Equity method investments		184	219
Total equity method investments			507	568
Investments with readily determinable fair values	Prepaid expenses and other current assets		32	—
Investments with readily determinable fair values	Other noncurrent assets		54	51
Equity investments without readily determinable fair values:				
Group Nine Media <sup>(b)</sup>	Other noncurrent assets	25%	276	256
Formula E <sup>(c)</sup>	Other noncurrent assets	25%	65	65
Other	Other noncurrent assets		200	193
Total equity investments without readily determinable fair values			541	514
Total equity investments			\$ 1,134	\$ 1,133

<sup>(a)</sup> Discovery Solar Ventures, LLC invests in limited liability companies that sponsor renewable energy projects related to solar energy. These investments are considered VIEs of the Company and are accounted for under the equity method of accounting using the HLBV methodology for allocating earnings.

<sup>(b)</sup> Overall ownership percentage for Group Nine Media is calculated on an outstanding shares basis. The amount shown herein includes a \$20 million note receivable balance presented within Prepaid expenses and other current assets on the Company's consolidated balance sheets.

<sup>(c)</sup> Ownership percentage for Formula E includes holdings accounted for as an equity method investment and holdings accounted for as an equity investment without a readily determinable fair value.

**Equity Method Investments**

Investments in equity method investees are those for which the Company has the ability to exercise significant influence but does not control and is not the primary beneficiary. The Company recorded impairment losses of \$8 million, \$4 million and \$29 million for the years ended December 31, 2020, 2019 and 2018, respectively, because the change in value was considered other-than-temporary. The impairment losses are reflected as a component of loss from equity investees on the Company's consolidated statement of operations.

**DISCOVERY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

With the exception of nC+, the carrying values of the Company's equity method investments are consistent with its ownership in the underlying net assets of the investees. A portion of the Scripps Networks purchase price associated with the investment in nC+ was attributed to amortizable intangible assets. This basis difference is included in the carrying value of nC+ and is amortized over time as a reduction of earnings from nC+. Earnings from nC+ were reduced by the amortization of these intangibles of \$10 million, \$9 million, and \$9 million during the years ended December 31, 2020, 2019 and 2018, respectively. Amortization that reduces the Company's equity in earnings of nC+ for future periods is expected to be \$51 million.

Certain of the Company's other equity method investments are VIEs, for which the Company is not the primary beneficiary. As of December 31, 2020, the Company's maximum exposure for all its unconsolidated VIEs, including the investment carrying values and unfunded contractual commitments made on behalf of VIEs, was approximately \$250 million. The Company's maximum estimated exposure excludes the non-contractual future funding of VIEs. The aggregate carrying values of these VIE investments were \$123 million as of December 31, 2020 and \$160 million as of December 31, 2019. The Company recognized its portion of VIE operating results with net losses of \$91 million, \$14 million, and \$52 million for the years ended December 31, 2020, 2019 and 2018, respectively, in loss from equity investees, net on the consolidated statements of operations.

***Investments with Readily Determinable Fair Value***

Investments in entities or other securities in which the Company has no control or significant influence, is not the primary beneficiary, and have a readily determinable fair value are classified as equity investments with readily determinable fair value. The investments are measured at fair value based on a quoted market price per unit in active markets multiplied by the number of units held without consideration of transaction costs (Level 1). Gains and losses are recorded in other income (expense), net on the consolidated statements of operations.

The Company owns shares of common stock of Lions Gate Entertainment Corp. ("Lionsgate"), an entertainment company. Formerly, the Company hedged 50% of the Lionsgate shares with an equity collar (the "Lionsgate Collar") and pledged those shares as collateral to the derivative counterparty with changes in fair value reflected as a component of other income (expense), net on the consolidated statements of operations. (See Note 10.) During the year ended December 31, 2020, the Company terminated the Lionsgate Collar. The Company received cash of \$44 million and recognized a gain of \$7 million, which represents the difference between the carrying value and the fair value of the hedged shares, upon termination. The gain is included in other income (expense), net on the consolidated statements of operations.

During the fourth quarter of 2020, fuboTV Inc., an investment that was formerly determined to not have a readily determinable fair value, was listed on the New York Stock Exchange. As a result, the Company recognized a total gain of \$126 million, including a realized gain and receivable of \$101 million pertaining to the Company's sale of 4 million fuboTV Inc. shares. Such gain and receivable are recorded in other income (expense), net on the consolidated statements of operations and prepaid expenses and other current assets on the consolidated balance sheets, respectively. (See Note 20.)

The gains and losses related to the Company's investments with readily determinable fair values for the years ended December 31, 2020, 2019 and 2018 are summarized in the table below (in millions).

	Year Ended December 31,		
	2020	2019	2018
Net gains (losses) recognized during the period on equity securities	\$ 129	\$ (26)	\$ (88)
Less: Net gains recognized on equity securities sold	101	—	—
Unrealized gains (losses) recognized during reporting period on equity securities still held at the reporting date	<u>\$ 28</u>	<u>\$ (26)</u>	<u>\$ (88)</u>

***Equity investments without readily determinable fair values assessed under the measurement alternative***

Equity investments without readily determinable fair value include ownership rights that either (i) do not meet the definition of in-substance common stock or (ii) do not provide the Company with control or significant influence and these investments do not have readily determinable fair values.

During the year ended December 31, 2020, the Company invested \$39 million in various equity investments without readily determinable fair values and concluded that its other equity investments without readily determinable fair values had no indicators that a change in fair value had taken place. As of December 31, 2020, the Company had recorded cumulative upward adjustments of \$9 million for its equity investments without readily determinable fair values.

**DISCOVERY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 5. FAIR VALUE MEASUREMENTS**

Fair value is defined as the amount that would be received for selling an asset or paid to transfer a liability in an orderly transaction between market participants. Assets and liabilities carried at fair value are classified in the following three categories:

- Level 1 – Quoted prices for identical instruments in active markets.
- Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.
- Level 3 – Valuations derived from techniques in which one or more significant inputs are unobservable.

The table below presents assets and liabilities measured at fair value on a recurring basis (in millions).

Category	Balance Sheet Location	December 31, 2020			Total
		Level 1	Level 2	Level 3	
<b>Assets</b>					
Cash equivalents:					
Time deposits	Cash and cash equivalents	\$ —	\$ 7	\$ —	\$ 7
Treasury securities	Cash and cash equivalents	500	—	—	500
Equity securities:					
Money market funds	Cash and cash equivalents	—	150	—	150
Time deposits	Prepaid expenses and other current assets	—	250	—	250
Mutual funds	Prepaid expenses and other current assets	14	—	—	14
Company-owned life insurance contracts	Prepaid expenses and other current assets	—	4	—	4
Mutual funds	Other noncurrent assets	200	—	—	200
Company-owned life insurance contracts	Other noncurrent assets	—	48	—	48
Total		<u>\$ 714</u>	<u>\$ 459</u>	<u>\$ —</u>	<u>\$ 1,173</u>
<b>Liabilities</b>					
Deferred compensation plan	Accrued liabilities	\$ 28	\$ —	\$ —	\$ 28
Deferred compensation plan	Other noncurrent liabilities	220	—	—	220
Total		<u>\$ 248</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 248</u>

Category	Balance Sheet Location	December 31, 2019			Total
		Level 1	Level 2	Level 3	
<b>Assets</b>					
Cash equivalents:					
Time deposits	Cash and cash equivalents	\$ —	\$ 10	\$ —	\$ 10
Equity securities:					
Mutual funds	Prepaid expenses and other current assets	11	—	—	11
Company-owned life insurance contracts	Prepaid expenses and other current assets	—	4	—	4
Mutual funds	Other noncurrent assets	192	—	—	192
Company-owned life insurance contracts	Other noncurrent assets	—	45	—	45
Total		<u>\$ 203</u>	<u>\$ 59</u>	<u>\$ —</u>	<u>\$ 262</u>
<b>Liabilities</b>					
Deferred compensation plan	Accrued liabilities	\$ 24	\$ —	\$ —	\$ 24
Deferred compensation plan	Other noncurrent liabilities	209	—	—	209
Total		<u>\$ 233</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 233</u>

**DISCOVERY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Equity securities include money market funds, time deposits, investments in mutual funds held in separate trusts, which are owned as part of the Company's supplemental retirement plans, and company-owned life insurance contracts. (See Note 16.) The fair value of Level 1 equity securities was determined by reference to the quoted market price per share in active markets multiplied by the number of shares held without consideration of transaction costs. The fair value of the deferred compensation plan liability was determined based on the fair value of the related investments elected by employees. Changes in the fair value of the investments are offset by changes in the fair value of the deferred compensation obligation. (See Note 16.) Company-owned life insurance contracts are recorded at their cash surrender value, which approximates fair value (Level 2).

In addition to the financial instruments listed in the tables above, the Company holds other financial instruments, including cash deposits, accounts receivable, accounts payable, and senior notes. The carrying values for such financial instruments, other than the senior notes, each approximated their fair values as of December 31, 2020 and 2019. The estimated fair value of the Company's outstanding senior notes using quoted prices from over-the-counter markets, considered Level 2 inputs, was \$18.7 billion and \$17.1 billion as of December 31, 2020 and 2019, respectively.

The Company's derivative financial instruments are discussed in Note 10.

**NOTE 6. CONTENT RIGHTS**

The following table presents the components of content rights (in millions).

	December 31,	
	2020	2019
Produced content rights:		
Completed	\$ 8,576	\$ 6,976
In-production	731	582
Coproduced content rights:		
Completed	888	882
In-production	78	50
Licensed content rights:		
Acquired	1,312	1,101
Prepaid	556	249
Content rights, at cost	12,141	9,840
Accumulated amortization	(8,170)	(6,132)
Total content rights, net	3,971	3,708
Current portion	(532)	(579)
Noncurrent portion	\$ 3,439	\$ 3,129

Content expense consisted of the following (in millions).

	Year Ended December 31,		
	2020	2019	2018
Content amortization	\$ 2,908	\$ 2,786	\$ 2,858
Other production charges	334	412	471
Content impairments	48	67	430
Total content expense	\$ 3,290	\$ 3,265	\$ 3,759

Content expense is generally a component of costs of revenue on the consolidated statements of operations. No content impairments were recorded as a component of restructuring and other charges during the years ended December 31, 2020 and December 31, 2019. Content impairments of \$405 million for the year ended December 31, 2018 were due to the strategic programming changes following the acquisition of Scripps Networks and are reflected in restructuring and other charges as further described in Note 17.

**DISCOVERY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

As of December 31, 2020, the Company expects to amortize approximately 59%, 26% and 12% of its produced and co-produced content, excluding content in-production, and 55%, 21% and 9% of its licensed content rights in the next three twelve-month operating cycles ended December 31, 2021, 2022 and 2023, respectively.

**NOTE 7. GOODWILL AND INTANGIBLE ASSETS**

**Goodwill**

The carrying value and changes in the carrying value of goodwill attributable to each business unit were as follows (in millions).

	U.S. Networks	International Networks	Total
December 31, 2018	\$ 10,785	\$ 2,221	\$ 13,006
Acquisitions (Note 3)	3	191	194
Impairment of goodwill	—	(155)	(155)
Foreign currency translation and other adjustments	25	(20)	5
December 31, 2019	\$ 10,813	\$ 2,237	\$ 13,050
Acquisitions (Note 3)	—	25	25
Impairment of goodwill	—	(121)	(121)
Foreign currency translation and other adjustments	—	116	116
December 31, 2020	\$ 10,813	\$ 2,257	\$ 13,070

The carrying amount of goodwill at the U.S. Networks segment included accumulated impairments of \$20 million as of December 31, 2020 and 2019. The carrying amount of goodwill at the International Networks segment included accumulated impairments of \$1.6 billion and \$1.5 billion as of December 31, 2020 and 2019, respectively.

**Intangible Assets**

Finite-lived intangible assets consisted of the following (in millions, except years).

	Weighted Average Amortization Period (Years)	December 31, 2020			December 31, 2019		
		Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Intangible assets subject to amortization:							
Trademarks	10	\$ 1,751	\$ (715)	\$ 1,036	\$ 1,708	\$ (515)	\$ 1,193
Customer relationships	10	9,551	(3,338)	6,213	9,446	(2,408)	7,038
Other	8	421	(191)	230	400	(128)	272
Total		\$ 11,723	\$ (4,244)	\$ 7,479	\$ 11,554	\$ (3,051)	\$ 8,503

Straight-line amortization expense for finite-lived intangible assets reflects the pattern in which the assets' economic benefits are consumed over their estimated useful lives. Amortization expense related to finite-lived intangible assets was \$1.1 billion, \$1.1 billion and \$1.2 billion for the years ended December 31, 2020, 2019 and 2018, respectively.

**DISCOVERY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Amortization expense relating to intangible assets subject to amortization for each of the next five years and thereafter is estimated to be as follows (in millions).

	2021	2022	2023	2024	2025	Thereafter
Amortization expense	\$ 1,079	\$ 1,048	\$ 1,014	\$ 928	\$ 901	\$ 2,509

Indefinite-lived intangible assets not subject to amortization (in millions):

	December 31,	
	2020	2019
Trademarks	\$ 161	\$ 164

**Impairment Analysis**

*2020 Impairment Analysis*

The Company concluded that the continued impacts of COVID-19 on the operating results of the Europe reporting unit represented a triggering event in the second quarter of 2020. During the second quarter, the Company performed a quantitative goodwill impairment analysis for its Europe reporting unit using a DCF valuation model. A market-based valuation model was not weighted in the analysis given the significant volatility in the equity markets. Significant judgments and assumptions in the DCF model included the amount and timing of future cash flows, including revenue growth rates, long-term growth rates of 2%, and a discount rate ranging from 10% to 10.5%. The estimated fair value of the Europe reporting unit exceeded its carrying value and, therefore, no impairment was recorded.

Also during the second quarter of 2020, the Company determined that it was more likely than not that the fair value was greater than the carrying value for all other reporting units with the exception of the Asia-Pacific reporting unit. The Company performed a quantitative goodwill impairment analysis for the Asia-Pacific reporting unit and determined that the estimated fair value did not exceed its carrying value, which resulted in a pre-tax impairment charge to write-off the remaining \$36 million goodwill balance during the second quarter of 2020. The impairment charge was not deductible for tax purposes. Significant judgments and assumptions included the amount and timing of future cash flows, including revenue growth rates, long-term growth rates ranging from 2% to 2.5%, and a discount rate of 11%. The cash flows employed in the DCF analysis for the Asia-Pacific reporting unit were based on the reporting unit's budget and long-term business plan. The determination of fair value of the Company's Asia-Pacific reporting unit represents a Level 3 fair value measurement in the fair value hierarchy due to its use of internal projections and unobservable measurement inputs. The goodwill impairment charge did not have an impact on the calculation of the Company's financial covenants under the Company's debt arrangements.

During the third quarter of 2020, the Company realigned its International Networks management reporting structure. As a result, Australia and New Zealand, which were previously included in the Europe reporting unit, are now included in the Asia-Pacific reporting unit, including the associated goodwill. As a result of this realignment, the Company performed a quantitative goodwill impairment analysis for its Europe and Asia-Pacific reporting units using a DCF valuation model. A market-based valuation model was not weighted in the analysis given the significant volatility in the equity markets. Significant judgments and assumptions in the DCF model included the amount and timing of future cash flows, including revenue growth rates, long-term growth rates of 2% for Europe and 2% to 2.5% for Asia-Pacific, and a discount rate ranging from 10% to 10.5% for Europe and 11% for Asia-Pacific. The estimated fair value of both the Europe and Asia-Pacific reporting units exceeded their carrying values and, therefore, no impairment was recorded.

During the fourth quarter of 2020, the Company performed its annual qualitative goodwill impairment assessment for all reporting units and it determined that it was more likely than not that the fair value of those reporting units exceeded their carrying values, except for its Europe and Asia-Pacific reporting units. Given limited headroom of below 20% in its Europe and Asia-Pacific reporting units during the third quarter of 2020, the Company performed a quantitative goodwill impairment analysis for each of these reporting units using a DCF valuation model. A market-based valuation model was not weighted in the analysis due to significant volatility in the reporting units' equity markets.

The quantitative goodwill impairment analysis for the Company's Europe reporting unit indicated that the estimated fair value exceeded its carry value by approximately 20% and, therefore, no impairment was recorded. Significant judgments and assumptions included the amount and timing of future cash flows, including revenue growth rates, long-term growth rate of 2%, and discount rates ranging from 10.5% to 11%. The Company noted that a 1.0% increase in the discount rate and a 0.5% decrease in the long-term growth rate would not have resulted in an impairment loss. As of December 31, 2020, the carrying value of goodwill assigned to the Europe reporting unit was \$1.9 billion.

**DISCOVERY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The quantitative impairment analysis for the Company's Asia-Pacific reporting unit indicated that estimated fair value did not exceed its carrying value, which resulted in a pre-tax impairment charge to write-off the remaining \$85 million goodwill balance. The impairment was a result of increased cost projections for this region committed to during the fourth quarter of 2020 as part of our global discovery+ rollout strategy. The impairment charge was not deductible for tax purposes. Significant judgments and assumptions included the amount and timing of future cash flows, including revenue growth rates, long-term growth rates ranging from 2% to 2.5%, and a discount rate of 11%. The cash flows employed in the DCF analysis for the Asia-Pacific reporting unit were based on the reporting unit's budget and long-term business plan. The determination of fair value of the Company's Asia-Pacific reporting unit represents a Level 3 fair value measurement in the fair value hierarchy due to its use of internal projections and unobservable measurement inputs. The goodwill impairment charge did not have an impact on the calculation of the Company's financial covenants under the Company's debt arrangements.

*2019 Impairment Analysis*

During the third quarter of 2019, due to an increasingly challenging business environment in the Asia-Pacific region, which included 1) moderating revenue growth projections, 2) underperformance of certain sports investments, 3) heightened volatility in China and surrounding economies, and 4) a decline in Asia-Pacific stock price multiples for peer media companies, the Company believed the increased risk required it to perform an interim impairment test as of August 31, 2019. The results of the step 1 test indicated that the carrying value of the net assets in the Asia-Pacific reporting unit exceeded its fair value. Given these results, the Company then applied the hypothetical purchase price analysis required by the step 2 test and recognized a pre-tax goodwill impairment charge of \$155 million during the year ended December 31, 2019, which was not deductible for tax purposes. The determination of fair value of the Company's Asia-Pacific reporting unit represents a Level 3 fair value measurement in the fair value hierarchy due to its use of internal projections and unobservable measurement inputs.

As of October 1, 2019, the Company performed a quantitative goodwill impairment assessment for all reporting units consistent with the Company's accounting policy. The estimated fair value of each reporting unit exceeded its carrying value and, therefore, no impairment was recorded. The Europe reporting unit, which had headroom of 19%, was the only reporting unit with fair value in excess of carrying value of less than 20%. The fair values of the reporting units were determined using DCF and market-based valuation models. Cash flows were determined based on Company estimates of future operating results and discounted using an internal rate of return based on an assessment of the risk inherent in future cash flows of the respective reporting unit. The market-based valuation models utilized multiples of earnings before interest, taxes, depreciation and amortization. Both the DCF and market-based models resulted in substantially similar fair values.

*2018 Impairment Analysis*

As of November 30, 2018, the Company performed its annual qualitative goodwill impairment assessment for all reporting units and determined that it was more likely than not that the fair value of those reporting units exceeded their carrying values, except for its Asia-Pacific reporting unit. Based on the results of the qualitative assessment, the Company performed a quantitative step 1 impairment test (comparison of fair value to carrying value) for its Asia-Pacific reporting unit, which indicated that the estimated fair value exceeded its carrying value by approximately 10% and, therefore, no impairment was recorded.

**DISCOVERY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 8. DEBT**

The table below presents the components of outstanding debt (in millions).

	December 31,	
	2020	2019
2.800% Senior Notes, semi-annual interest, due June 2020	\$ —	\$ 600
4.375% Senior Notes, semi-annual interest, due June 2021	335	640
2.375% Senior Notes, euro denominated, annual interest, due March 2022	369	336
3.300% Senior Notes, semi-annual interest, due May 2022	168	496
3.500% Senior Notes, semi-annual interest, due June 2022	62	400
2.950% Senior Notes, semi-annual interest, due March 2023	796	1,167
3.250% Senior Notes, semi-annual interest, due April 2023	192	350
3.800% Senior Notes, semi-annual interest, due March 2024	450	450
2.500% Senior Notes, sterling denominated, annual interest, due September 2024	545	525
3.900% Senior Notes, semi-annual interest, due November 2024	497	497
3.450% Senior Notes, semi-annual interest, due March 2025	300	300
3.950% Senior Notes, semi-annual interest, due June 2025	500	500
4.900% Senior Notes, semi-annual interest, due March 2026	700	700
1.900% Senior Notes, euro denominated, annual interest, due March 2027	739	673
3.950% Senior Notes, semi-annual interest, due March 2028	1,700	1,700
4.125% Senior Notes, semi-annual interest, due May 2029	750	750
3.625% Senior Notes, semi-annual interest, due May 2030	1,000	—
5.000% Senior Notes, semi-annual interest, due September 2037	548	1,250
6.350% Senior Notes, semi-annual interest, due June 2040	664	850
4.950% Senior Notes, semi-annual interest, due May 2042	285	500
4.875% Senior Notes, semi-annual interest, due April 2043	516	850
5.200% Senior Notes, semi-annual interest, due September 2047	1,250	1,250
5.300% Senior Notes, semi-annual interest, due May 2049	750	750
4.650% Senior Notes, semi-annual interest, due May 2050	1,000	—
4.000% Senior Notes, semi-annual interest, due September 2055	1,732	—
Program financing line of credit, quarterly interest based on adjusted LIBOR or variable prime rate	—	10
<b>Total debt</b>	<b>15,848</b>	<b>15,544</b>
Unamortized discount, premium and debt issuance costs, net <sup>(a)</sup>	(444)	(125)
<b>Debt, net of unamortized discount, premium and debt issuance costs</b>	<b>15,404</b>	<b>15,419</b>
Current portion of debt	(335)	(609)
<b>Noncurrent portion of debt</b>	<b>\$ 15,069</b>	<b>\$ 14,810</b>

<sup>(a)</sup> Current portion of unamortized discount, premium, and debt issuance costs, net is less than \$1 million.

**Senior Notes**

On February 19, 2021, Discovery Communications, LLC (“DCL”), a wholly owned subsidiary of Discovery, Inc., issued a notice for the redemption in full of all \$335 million aggregate principal amount outstanding of its 4.375% Notes due June 2021 (the “Notes”) in accordance with the terms of the indenture governing the Notes. The Notes will be redeemed on March 21, 2021 (the “Redemption Date”), at a redemption price with respect to each Note equal to the greater of (i) 100% of the principal amount of the Notes being redeemed and (ii) the sum of the present values of the remaining scheduled payments of principal and interest thereon (exclusive of interest accrued to the Redemption Date) discounted to the Redemption Date on a semi-annual basis at a comparable treasury rate plus 25 basis points, plus accrued interest thereon to the Redemption Date.

**DISCOVERY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended December 31, 2020, Discovery, Inc. commenced five separate private offers to exchange (the "Exchange Offers") any and all of Discovery Communications, LLC's ("DCL"), a wholly-owned subsidiary of the Company, outstanding 5.000% Senior Notes due 2037, 6.350% Senior Notes due 2040, 4.950% Senior Notes due 2042, 4.875% Senior Notes due 2043 and 5.200% Senior Notes due 2047 (collectively, the "Old Notes") for one new series of DCL 4.000% Senior Notes due September 2055 (the "New Notes"). Discovery, Inc. completed the Exchange Offers in September 2020, by exchanging \$1.4 billion aggregate principal amount of the Old Notes validly tendered and accepted by Discovery pursuant to the Exchange Offers, for \$1.7 billion aggregate principal amount of the New Notes (before debt discount of \$318 million). The New Notes are fully and unconditionally guaranteed by the Company and Scripps Networks on an unsecured and unsubordinated basis. The Exchange Offers were accounted for as a debt modification and, as a result, third-party issuance costs totaling \$11 million were expensed as incurred.

Also, for the year ended December 31, 2020, the Company completed offers to purchase for cash (the "Cash Offers") the Old Notes. Approximately \$22 million aggregate principal amount of the Old Notes were validly tendered and accepted for purchase by Discovery pursuant to the Cash Offers, for total cash consideration of \$27 million, plus accrued interest. The Cash Offers resulted in a loss on extinguishment of debt of \$5 million.

Finally, for the year ended December 31, 2020, DCL issued \$1.0 billion aggregate principal amount of senior notes due May 2030 and \$1.0 billion aggregate principal amount of Senior Notes due May 2050. The proceeds received by DCL were net of a \$1 million issuance discount and \$20 million of debt issuance costs. DCL used the proceeds from the offering to repurchase \$1.5 billion aggregate principal amount of DCL's and Scripps Networks' senior notes in a cash tender offer. The repurchase resulted in a loss on extinguishment of debt of \$71 million. The loss included \$62 million of net premiums to par value and \$9 million of other charges. As further described below, the Company used the remaining proceeds and cash on hand to fully repay the \$500 million that was outstanding under its revolving credit facility.

For the year ended December 31, 2019, DCL issued \$750 million aggregate principal amount of Senior Notes due 2029 and \$750 million due 2049. The proceeds received by DCL were net of a \$6 million issuance discount and \$12 million of debt issuance costs. DCL used the proceeds from the offering to redeem and repurchase approximately \$1.3 billion aggregate principal amount of DCL's and Scripps Networks' senior notes. The redemptions and repurchase resulted in a loss on extinguishment of debt of \$23 million for the year ended December 31, 2019. The loss included \$20 million of net premiums to par value and \$3 million of other non-cash charges.

Also, for the year ended December 31, 2019, the Company redeemed \$411 million aggregate principal amount of senior notes due in 2019 and made open market bond repurchases of \$55 million, resulting in a loss on extinguishment of debt of \$5 million.

As of December 31, 2020, all senior notes are fully and unconditionally guaranteed by the Company and Scripps Networks, except for \$32 million of un-exchanged Scripps Networks senior notes acquired in conjunction with the acquisition of Scripps Networks.

#### **Revolving Credit Facility and Commercial Paper Programs**

DCL and certain designated foreign subsidiaries of DCL have the capacity to borrow up to \$2.5 billion revolving credit facility (the "Credit Facility"), including a \$100 million sublimit for the issuance of standby letters of credit and a \$50 million sublimit for Euro-denominated swing line loans. The Credit Facility matures in August 2022 with the option for up to two additional 364-day renewal periods and is subject to a maximum consolidated leverage ratio financial covenant of 5.50 to 1.00 at December 31, 2020. As further described below, during the year ended December 31, 2020, the Company entered into an amendment to the Credit Facility. As of December 31, 2020, DCL was in compliance with all covenants and there were no events of default under the Credit Facility.

Additionally, the Company's commercial paper program is supported by the Credit Facility. Under the commercial paper program, the Company may issue up to \$1.5 billion, including up to \$500 million of Euro-denominated borrowings. Borrowing capacity under the Credit Facility is reduced by any outstanding borrowings under the commercial paper program.

As of December 31, 2020 and 2019, the Company had no outstanding borrowings under the Credit Facility or the commercial paper program.

All obligations of DCL and the other borrowers under the Credit Facility are unsecured and are fully and unconditionally guaranteed by Discovery and Scripps.

**DISCOVERY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Amendment to Revolving Credit Facility**

To preserve flexibility in the current environment, in the second quarter of 2020, the Company amended certain provisions of its revolving credit facility, including the following:

The financial covenants were modified to reset the Maximum Consolidated Leverage Ratio as set forth below:

Measurement Period Ending	Maximum Consolidated Leverage Ratio
March 31, 2020 and June 30, 2020	5.00:1.00
September 30, 2020 through March 31, 2021	5.50:1.00
June 30, 2021	5.00:1.00
September 30, 2021 and thereafter	4.50:1.00

In addition, the restricted payments covenant was modified to add a limitation on restricted payments made in cash unless after giving pro forma effect thereto, the consolidated leverage ratio is less than or equal to 4.50:1.00. Finally, the minimum LIBOR rate and the minimum base rate were each increased from 0% to 0.50% per annum.

**Long-term Debt Repayment Schedule**

The following table presents a summary of scheduled and estimated debt payments, excluding the revolving credit facility and commercial paper borrowings, for the next five years based on the amount of the Company's debt outstanding as of December 31, 2020 (in millions).

	2021	2022	2023	2024	2025	Thereafter
Long-term debt repayments	\$ 335	\$ 599	\$ 988	\$ 1,493	\$ 800	\$ 11,633

**NOTE 9. LEASES**

The Company has operating and finance leases for transponders, office space, studio facilities, and other equipment. The Company's leases have remaining lease terms of up to 16 years, some of which include options to extend the leases for up to 10 years. Most leases are not cancellable prior to their expiration.

The components of lease cost were as follows (in millions):

	Year Ended December 31,	
	2020	2019
Operating lease cost	\$ 116	\$ 114
Finance lease cost:		
Amortization of right-of-use assets	\$ 52	\$ 44
Interest on lease liabilities	8	9
Total finance lease cost	\$ 60	\$ 53
Variable lease cost	\$ 9	\$ 10

**DISCOVERY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Supplemental cash flow information related to leases was as follows (in millions):

	Year Ended December 31,	
	2020	2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ (101)	\$ (98)
Operating cash flows from finance leases	\$ (8)	\$ (9)
Financing cash flows from finance leases	\$ (54)	\$ (44)
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	\$ 51	\$ 369
Finance leases	\$ 36	\$ 38

Supplemental balance sheet information related to leases was as follows (in millions):

	Location on Balance Sheet	December 31,	
		2020	2019
<b>Operating Leases</b>			
Operating lease right-of-use assets	Other noncurrent assets	\$ 575	\$ 613
Operating lease liabilities (current)	Accrued liabilities	\$ 71	\$ 82
Operating lease liabilities (noncurrent)	Other noncurrent liabilities	592	621
Total operating lease liabilities		\$ 663	\$ 703
<b>Finance Leases</b>			
Finance lease right-of-use assets	Property and equipment, net	\$ 220	\$ 231
Finance lease liabilities (current)	Accrued liabilities	\$ 57	\$ 47
Finance lease liabilities (noncurrent)	Other noncurrent liabilities	184	203
Total finance lease liabilities		\$ 241	\$ 250

	December 31,	
	2020	2019
Weighted average remaining lease term (in years):		
Operating leases	12	13
Finance leases	5	6
Weighted average discount rate		
Operating leases	3.37 %	3.77 %
Finance leases	3.80 %	3.56 %

**DISCOVERY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Maturities of lease liabilities as of December 31, 2020 were as follows (in millions):

	Operating Leases	Finance Leases
2021	\$ 91	\$ 64
2022	76	55
2023	69	48
2024	63	31
2025	58	23
Thereafter	502	42
Total lease payments	859	263
Less: Imputed interest	(196)	(22)
Total	\$ 663	\$ 241

During the year ended December 31, 2019, the Company recorded approximately \$370 million of operating lease liabilities associated with its new global headquarters in New York City. As of December 31, 2020, the Company has additional leases that have not yet commenced with total minimum lease payments of approximately \$6 million, primarily related to equipment leases. The remaining leases will commence in fiscal year 2021, have lease terms of 4 to 16 years, and include options to extend the terms for up to 10 additional years.

**Supplemental Information for Comparative Periods**

Rent expense under operating leases was \$205 million for the year ended December 31, 2018.

**NOTE 10. DERIVATIVE FINANCIAL INSTRUMENTS**

The Company uses derivative financial instruments to modify its exposure to market risks from changes in foreign currency exchange rates and interest rates. In addition to the Company's normal course of business cash flow hedging program, the Company entered into the following arrangements:

*Cash Flow Hedges*

During the year ended December 31, 2020, the Company unwound certain foreign exchange forward contracts designated as cash flow hedges with an aggregate notional amount of \$255 million. The Company received cash of \$19 million in settlement and expects to realize the unrealized gain in accumulated other comprehensive loss between 2025 and 2030.

Also, during the year ended December 31, 2020, the Company executed forward starting interest rate swap contracts designated as cash flow hedges with a total notional value of \$1.6 billion. These contracts will mitigate interest rate risk associated with the forecasted issuance of future fixed-rate public debt. The Company also issued and settled interest rate cash flow hedges with a total notional value of \$1 billion following the pricing of its offering of 3.625% Senior Notes due May 2030 and 4.650% Senior Notes due May 2050. (See Note 8.) The \$7 million pretax accumulated other comprehensive loss at the termination date will be amortized as an adjustment to interest expense over the respective terms of the newly issued notes.

During the year ended December 31, 2019, the Company executed foreign exchange forward contracts with an aggregate notional amount of \$798 million. The forwards were designated as cash flow hedges and will mitigate exposure to foreign exchange rate volatility and the associated impact on earnings related to a portion of forecasted foreign currency revenues from PGA Golf from 2023 through 2030.

Also, during the year ended December 31, 2019, terminated and settled its interest rate cash flow hedges with a total notional value of \$500 million following the pricing of its offering of 4.125% senior notes due May 2029. (See Note 8.) The \$18 million pretax accumulated other comprehensive loss at the termination date will be amortized as an adjustment to interest expense over the ten-year term of the newly issued notes.

Finally, during the year ended December 31, 2019, the Company executed a forward starting interest rate swap contract designated as a cash flow hedge with a total notional value of \$400 million. This contract will mitigate interest rate risk associated with the forecasted issuance of future fixed rate public debt.

**DISCOVERY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*Net Investment Hedges*

During the year ended December 31, 2019, the Company entered into two fixed-to-fixed cross-currency swaps with an aggregate notional amount of \$201 million. The swaps were designated as net investment hedges of NOK assets and GBP assets. The maturity date of both swaps is February 2024. The objective of these swaps is to protect the company against the risk of changes in the foreign currency-equivalent of net investments in the foreign operations due to movements in foreign currency. Contemporaneously, the Company unwound an existing \$100 million notional fixed-to-fixed cross currency swap that was designated as a net investment hedge of NOK assets and recorded a gain of \$5 million as a cumulative translation adjustment under other comprehensive income (loss).

During the year ended December 31, 2018, the Company entered into a foreign currency forward contract with a notional value of 35.6 billion Chilean Pesos (equivalent to \$53 million) at execution date and with a due date of December 15, 2021. This was designated a net investment hedge, hedging against changes in the foreign currency-equivalent of the net investment in the foreign operation due to movements in exchange rates.

Also, during the year ended December 31, 2018, the Company entered into six fixed-to-fixed cross-currency swaps with an aggregate notional amount of \$1.7 billion. The swaps were all designated as net investment hedges of Euro assets and GBP assets. The maturity dates of the swaps are 2022 and 2027. The objective of these swaps is to protect the company against the risk of changes in the foreign currency-equivalent of net investments in the foreign operations due to movements in foreign currency.

*No Hedging Designation*

During the year ended December 31, 2018, the Company entered into three foreign exchange forwards contracts with a notional value of \$860 million. The objective of these contracts is to protect the Company against adverse revaluation impact on its Euro denominated debt.

The following table summarizes the impact of derivative financial instruments on the Company's consolidated balance sheets (in millions). There were no amounts eligible to be offset under master netting agreements as of December 31, 2020 and 2019. The fair value of the Company's derivative financial instruments at December 31, 2020 and 2019 was determined using a market-based approach (Level 2).

	December 31, 2020					December 31, 2019				
	Fair Value					Fair Value				
	Notional	Prepaid expenses and other current assets	Other non-current assets	Accrued liabilities	Other non-current liabilities	Notional	Prepaid expenses and other current assets	Other non-current assets	Accrued liabilities	Other non-current liabilities
<b>Cash flow hedges:</b>										
Foreign exchange	\$ 1,082	\$ 2	\$ 5	\$ 14	\$ 17	\$ 1,631	\$ 29	\$ 7	\$ 5	\$ 16
Interest rate swaps	2,000	—	11	—	89	400	—	38	—	—
<b>Net investment hedges: <sup>(a)</sup></b>										
Cross-currency swaps	3,544	34	41	—	154	3,535	37	70	7	94
Foreign exchange	44	2	—	—	—	52	—	4	—	—
<b>No hedging designation:</b>										
Foreign exchange	1,035	—	—	2	26	1,177	—	—	13	50
Cross-currency swaps	139	2	—	—	13	279	3	—	—	5
Equity (Lionsgate collar)	—	—	—	—	—	65	19	18	—	—
<b>Total</b>		<u>\$ 40</u>	<u>\$ 57</u>	<u>\$ 16</u>	<u>\$ 299</u>		<u>\$ 88</u>	<u>\$ 137</u>	<u>\$ 25</u>	<u>\$ 165</u>

<sup>(a)</sup> Excludes £400 million of sterling notes (\$545 million equivalent at December 31, 2020) designated as a net investment hedge. (See Note 8.)

**DISCOVERY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The following table presents the pretax impact of derivatives designated as cash flow hedges on income and other comprehensive income (loss) (in millions).

	Year Ended December 31,		
	2020	2019	2018
<b>Gains (losses) recognized in accumulated other comprehensive loss:</b>			
Foreign exchange - derivative adjustments	\$ 14	\$ 17	\$ 34
Interest rate - derivative adjustments	(124)	21	—
<b>Gains (losses) reclassified into income from accumulated other comprehensive loss:</b>			
Foreign exchange - advertising revenue	1	6	(1)
Foreign exchange - distribution revenue	30	5	9
Foreign exchange - costs of revenues	2	2	11
Interest rate - interest expense	1	(2)	—
Foreign exchange - other expense, net (dedesignated portion)	—	3	—

If current fair values of designated cash flow hedges as of December 31, 2020 remained static over the next twelve months, the Company would reclassify \$14 million of net deferred losses from accumulated other comprehensive loss into income in the next twelve months. The maximum length of time the Company is hedging exposure to the variability in future cash flows is 35 years.

The following table presents the pretax impact of derivatives designated as net investment hedges on other comprehensive income (loss) (in millions). Other than amounts excluded from effectiveness testing, there were no other gains (losses) reclassified from accumulated other comprehensive loss to income during the years ended December 31, 2020, 2019 and 2018.

	Year Ended December 31,								
	Amount of gain (loss) recognized in AOCI			Location of gain (loss) recognized in income on derivative (amount excluded from effectiveness testing)	Amount of gain (loss) recognized in income on derivative (amount excluded from effectiveness testing)				
	2020	2019	2018		2020	2019	2018		
Cross currency swaps	\$ (61)	\$ 93	\$ 43	Interest expense, net	\$ 43	\$ 44	\$ 14		
Foreign exchange contracts	(2)	4	—	Other income (expense), net	—	—	—		
Sterling notes (foreign denominated debt)	(20)	(17)	30	N/A	—	—	—		
<b>Total</b>	<b>\$ (83)</b>	<b>\$ 80</b>	<b>\$ 73</b>		<b>\$ 43</b>	<b>\$ 44</b>	<b>\$ 14</b>		

The following table presents the pretax gains (losses) on derivatives not designated as hedges and recognized in other income (expense), net in the consolidated statements of operations (in millions).

	Year Ended December 31,		
	2020	2019	2018
Interest rate swaps	\$ —	\$ 1	\$ —
Cross-currency swaps	(10)	—	4
Foreign exchange derivatives	32	(65)	18
Credit contracts	—	—	(1)
Equity	7	13	29
<b>Total in other income (expense), net</b>	<b>\$ 29</b>	<b>\$ (51)</b>	<b>\$ 50</b>

**DISCOVERY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 11. REDEEMABLE NONCONTROLLING INTERESTS**

Redeemable noncontrolling interests are presented outside of permanent equity on the Company's consolidated balance sheet when the put right is outside of the Company's control. Redeemable noncontrolling interests reflected as of the balance sheet date are the greater of the noncontrolling interest balances adjusted for comprehensive income items and distributions or the redemption values remeasured at the period end foreign exchange rates. Adjustments to the carrying amount of redeemable noncontrolling interests to redemption value as a result of changes in exchange rates are reflected in currency translation adjustments, a component of other comprehensive income (loss); however, such currency translation adjustments to redemption value are allocated to Discovery stockholders only. Redeemable noncontrolling interest adjustments of carrying value to redemption value are reflected in retained earnings. The adjustment of carrying value to the redemption value that reflects a redemption in excess of fair value is included as an adjustment to income from continuing operations available to Discovery, Inc. stockholders in the calculation of earnings per share. (See Note 19.) The table below summarizes the Company's redeemable noncontrolling interests balances (in millions).

	December 31,	
	2020	2019
Discovery Family	\$ 206	\$ 206
MotorTrend Group LLC ("MTG")	112	118
Oprah Winfrey Network ("OWN")	10	64
Other	55	54
<b>Total</b>	<b>\$ 383</b>	<b>\$ 442</b>

The table below presents the reconciliation of changes in redeemable noncontrolling interests (in millions).

	December 31,		
	2020	2019	2018
Beginning balance	\$ 442	\$ 415	\$ 413
Initial fair value of redeemable noncontrolling interests of acquired businesses	—	25	—
Cash distributions to redeemable noncontrolling interests	(31)	(39)	(25)
Equity exchange with Harpo for step acquisition of OWN	(50)	—	—
Comprehensive income adjustments:			
Net income attributable to redeemable noncontrolling interests	12	16	20
Currency translation on redemption values	3	1	2
Retained earnings adjustments:			
Adjustments of carrying value to redemption value (redemption value does not equal fair value)	—	14	3
Adjustments of carrying value to redemption value (redemption value equals fair value)	7	4	—
OWN interest adjustment	—	6	2
Ending balance	<b>\$ 383</b>	<b>\$ 442</b>	<b>\$ 415</b>

The significant arrangements for redeemable noncontrolling interests are described below:

**Discovery Family**

Hasbro Inc. ("Hasbro") has the right to put the entirety of its remaining 40% interest in Discovery Family to Discovery at any time during the one-year period beginning December 31, 2021, or in the event a Discovery performance obligation related to Discovery Family is not met. Embedded in the redeemable noncontrolling interest is also a Discovery call right that is exercisable for one year after December 31, 2021. Upon the exercise of the put or call options, the price to be paid for the redeemable noncontrolling interest is a function of the then-current fair market value of the redeemable noncontrolling interest, to which certain discounts and redemption values may apply in specified situations depending upon the party exercising the put or call and the basis for the exercise of the put or call.

**DISCOVERY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**MTG**

Discovery and GoldenTree created the MTG joint venture in 2017. GoldenTree acquired a put right exercisable during 30-day windows beginning on each of March 25, 2021, September 25, 2022 and March 25, 2024, that requires Discovery to either purchase all of GoldenTree's noncontrolling 32.5% interest in the joint venture at fair value or participate in an initial public offering for the joint venture.

**OWN**

Harpo has the right to require the Company to purchase Harpo's remaining noncontrolling interest in OWN at fair value during four 90-day windows beginning on July 1, 2018 and every two and a half years thereafter through January 1, 2026. Harpo exercised the first of such remaining put rights in August 2018. In November 2018, the Company and Harpo entered into an amendment to the limited liability company ("LLC") agreement whereby Harpo agreed to withdraw its August 2018 put notice and upon any succeeding redemption, the put payment value will equal the fair value of Harpo's equity interest in OWN plus an incremental 9.337% per annum for the 2.5 year period between the July 1, 2018 put right date and the January 1, 2021 put right date. In December 2020, the Company and Harpo completed an equity exchange and amended the LLC agreement whereby the Company acquired an additional 20.2% ownership interest in OWN from Harpo in exchange for \$35 million of the Company's Series A common stock, which was issued from treasury stock. As a result of the exchange, the Company's ownership in OWN increased to approximately 94%. Harpo's remaining put rights are currently exercisable on July 1, 2023 and January 1, 2026.

**NOTE 12. EQUITY**

***Common Stock***

The Company has three series of common stock authorized, issued and outstanding as of December 31, 2020: Series A common stock, Series B common stock and Series C common stock. Holders of these three series of common stock have equal rights, powers and privileges, except as otherwise noted. Holders of Series A common stock are entitled to one vote per share and holders of Series B common stock are entitled to ten votes per share on all matters voted on by stockholders, except for directors to be elected by holders of the Company's Series A-1 convertible preferred stock. Holders of Series C common stock are not entitled to any voting rights, except as required by Delaware law. Generally, holders of Series A common stock and Series B common stock and Series A-1 convertible preferred stock vote as one class, except for certain preferential rights afforded to holders of Series A-1 convertible preferred stock.

Holders of Series A common stock, Series B common stock and Series C common stock will participate equally in cash dividends if declared by the Board of Directors, subject to preferential rights of outstanding preferred stock.

Each share of Series B common stock is convertible, at the option of the holder, into one share of Series A common stock. Series A and Series C common stock are not convertible.

Generally, distributions made in shares of Series A common stock, Series B common stock or Series C common stock will be made proportionally to all common stockholders. In the event of a reclassification, subdivision or combination of any series of common stock, the shares of the other series of common stock will be equally reclassified, subdivided or combined.

In the event of a liquidation, dissolution, or winding up of Discovery, after payment of Discovery's debts and liabilities and subject to preferential rights of outstanding preferred stock, holders of Series A common stock, Series B common stock and Series C common stock and holders of Series A-1 and Series C-1 convertible preferred stock will share equally in any assets available for distribution to holders of common stock.

***Convertible Preferred Stock***

The Company has two series of preferred stock authorized, issued and outstanding as of December 31, 2020: Series A-1 convertible preferred stock and Series C-1 convertible preferred stock. Series A-1 convertible preferred stock is convertible into nine shares of the Company's Series A common stock and Series C-1 convertible preferred stock is convertible into 19.3648 shares of the Company's Series C common stock, subject to certain anti-dilution adjustments. Shares of Series A-1 and Series C-1 convertible preferred stock may be independently converted into Series A common stock and Series C common, respectively.

**DISCOVERY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

As of December 31, 2020, all outstanding shares of Series A-1 and Series C-1 convertible preferred stock were held by Advance/Newhouse. Holders of Series A-1 and Series C-1 convertible preferred stock have equal rights, powers and privileges, except as otherwise noted. Except for the election of common stock directors, the holders of Series A-1 convertible preferred stock are entitled to vote on matters to which holders of Series A and Series B common stock are entitled to vote, and holders of Series C-1 convertible preferred stock are entitled to vote on matters to which holders of Series C common stock, which is generally non-voting, are entitled to vote pursuant to Delaware law. Series A-1 convertible preferred stockholders vote on an as converted to common stock basis together with the Series A and Series B common stockholders as a single class on all matters except the election of directors. Series C-1 convertible preferred stock is considered the economic equivalent of Series C common stock and is subject to certain transfer restrictions.

Additionally, through its ownership of the Series A-1 convertible preferred stock, Advance/Newhouse has special voting rights on certain matters and the right to elect three directors. Holders of the Company's common stock are not entitled to vote in the election of such directors. Advance/Newhouse retains these rights so long as it or its permitted transferees own or have the right to vote such shares that equal at least 80% of the shares of Series A convertible preferred stock issued to Advance/Newhouse in connection with the formation of Discovery, as converted to Series A-1 convertible preferred stock, plus any Series A-1 convertible preferred stock released from escrow, as may be adjusted for certain capital transactions. Holders of Series A-1 convertible preferred stock are subject to a right of first offer in favor of Discovery should Advance/Newhouse desire to sell 80% or more of the Series A-1 convertible preferred stock in a "Permitted Transfer" (as defined in the Discovery charter).

Subject to the prior preferences and other rights of any senior stock, holders of Series A-1 and Series C-1 convertible preferred stock will participate equally with common stockholders on an as converted to common stock basis in any cash dividends declared by the Board of Directors.

In the event of a liquidation, dissolution or winding up of Discovery, after payment of Discovery's debts and liabilities and subject to the prior payment with respect to any stock ranking senior to Series A-1 and Series C-1 convertible preferred stock, the holders of Series A-1 and Series C-1 convertible preferred stock will receive, before any payment or distribution is made to the holders of any common stock or other junior stock, an amount (in cash or property) equal to \$0.01 per share. Following payment of such amount and the payment in full of all amounts owing to the holders of securities ranking senior to Discovery's common stock, holders of Series A-1 and Series C-1 convertible preferred stock will share equally on an as converted to common stock basis with the holders of common stock with respect to any assets remaining for distribution to such holders.

No Series A-1 or C-1 convertible preferred stock was converted during the years ended December 31, 2020 and 2018. During the year ended December 31, 2019, Advance Newhouse Programming Partnership converted 1.1 million of its Series C-1 convertible preferred stock into 22.0 million shares of Series C common stock.

***Common Stock Issued in Connection with Scripps Networks Acquisition***

In March 2018, the Company issued 139 million shares of Series C common stock as part of the consideration paid for the acquisition of Scripps Networks, inclusive of the conversion of 1 million Scripps Networks share-based compensation awards. (See Note 3.)

**Repurchase Programs**

***Common Stock***

The Company has a stock repurchase program that was implemented in 2010. Under the program, management was authorized to purchase shares of the Company's common stock from time to time through open market purchases, privately negotiated transactions at prevailing prices, pursuant to one or more accelerated stock repurchase agreements, or other derivative arrangements as permitted by securities laws and other legal requirements, and subject to stock price, business and market conditions and other factors. The Company's authorization under this program expired in October 2017.

In February 2020, the Company's Board of Directors authorized additional stock repurchases of up to \$2 billion upon completion of its existing \$1 billion repurchase authorization announced in May 2019. All common stock repurchases, including prepaid common stock repurchase contracts, have been made through open market transactions and have been recorded as treasury stock on the consolidated balance sheets. Over the life of the Company's repurchase programs and as of December 31, 2020, the Company had repurchased 3 million and 229 million shares of Series A and Series C common stock, respectively, for the aggregate purchase price of \$171 million and \$8.2 billion, respectively. The table below presents a summary of common stock repurchases (in millions).

**DISCOVERY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

	Year Ended December 31,		
	2020	2019	2018
Series C Common Stock:			
Shares repurchased	41.6	23.2	—
Purchase price	\$ 965	\$ 637	\$ —

In May 2019, the Company made an upfront cash payment of \$96 million to enter into two prepaid common stock repurchase contracts for the Company's Series C common stock. Both contracts settled in cash for \$50 million each during June 2019 and August 2019, as the price of Discovery's Series C common stock was above the strike price at expiration for each contract. The contracts were accounted for as equity transactions.

**Convertible Preferred Stock**

There were no convertible preferred stock repurchases during 2020, 2019 or 2018. As of December 31, 2020, the Company had repurchased 0.2 million shares of Series C-1 convertible preferred stock for \$102 million.

**Other Comprehensive Income (Loss)**

The table below presents the tax effects related to each component of other comprehensive (loss) income and reclassifications made into the consolidated statements of operations (in millions).

	Year Ended December 31, 2020			Year Ended December 31, 2019			Year Ended December 31, 2018		
	Pretax	Tax Benefit (Expense)	Net-of-tax	Pretax	Tax Benefit (Expense)	Net-of-tax	Pretax	Tax Benefit (Expense)	Net-of-tax
<b>Currency translation adjustments:</b>									
Unrealized gains (losses):									
Foreign currency	\$ 357	\$ 33	\$ 390	\$ (95)	\$ 14	\$ (81)	\$ (246)	\$ (6)	\$ (252)
Net investment hedges	(109)	11	(98)	56	4	60	59	—	59
Reclassifications:									
Gain on disposition	—	—	—	6	—	6	4	—	4
Total currency translation adjustments	248	44	292	(33)	18	(15)	(183)	(6)	(189)
<b>Derivative adjustments:</b>									
Unrealized gains (losses)	(110)	24	(86)	38	(9)	29	34	(8)	26
Reclassifications from other comprehensive income to net income	(34)	7	(27)	(14)	3	(11)	(19)	5	(14)
Total derivative adjustments	(144)	31	(113)	24	(6)	18	15	(3)	12
<b>Pension plan and SERP liability:</b>									
Unrealized gains (losses)	(10)	2	(8)	(13)	3	(10)	3	—	3
Other comprehensive income (loss) adjustments	\$ 94	\$ 77	\$ 171	\$ (22)	\$ 15	\$ (7)	\$ (165)	\$ (9)	\$ (174)

**DISCOVERY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Accumulated Other Comprehensive Loss**

The table below presents the changes in the components of accumulated other comprehensive loss, net of taxes (in millions).

	Currency Translation	AFS <sup>(a)</sup>	Derivative Adjustments	Pension Plan and SERP Liability	Accumulated Other Comprehensive Income (Loss)
December 31, 2017	\$ (615)	\$ 26	\$ 4	\$ —	\$ (585)
Other comprehensive income (loss) before reclassifications	(193)	—	26	3	(164)
Reclassifications from accumulated other comprehensive loss to net income	4	—	(14)	—	(10)
Other comprehensive income (loss)	(189)	—	12	3	(174)
Reclassifications to retained earnings resulting from the adoption of ASU 2016-01	—	(26)	—	—	(26)
December 31, 2018	(804)	—	16	3	(785)
Other comprehensive income (loss) before reclassifications	(20)	—	29	(10)	(1)
Reclassifications from accumulated other comprehensive loss to net income	6	—	(11)	—	(5)
Other comprehensive income (loss)	(14)	—	18	(10)	(6)
Other comprehensive loss attributable to redeemable noncontrolling interests	(1)	—	—	—	(1)
Reclassifications to retained earnings resulting from the adoption of ASU 2018-02	(28)	—	(2)	—	(30)
December 31, 2019	(847)	—	32	(7)	(822)
Other comprehensive income (loss) before reclassifications	292	—	(86)	(8)	198
Reclassifications from accumulated other comprehensive loss to net income	—	—	(27)	—	(27)
Other comprehensive income (loss)	292	—	(113)	(8)	171
December 31, 2020	<u>\$ (555)</u>	<u>\$ —</u>	<u>\$ (81)</u>	<u>\$ (15)</u>	<u>\$ (651)</u>

<sup>(a)</sup> Effective January 1, 2018, unrealized gains and losses on equity investments with readily determinable fair values are recorded in other income (expense), net. (See Note 4.)

**NOTE 13. NONCONTROLLING INTEREST**

The Company has a controlling interest in the TV Food Network Partnership (the "Partnership"), which includes the Food Network and Cooking Channel. Food Network and Cooking Channel are operated and organized under the terms of the Partnership. The Company holds 80% of the voting interest and 68.7% of the economic interest in the Partnership. During the fourth quarter of 2020, the Partnership agreement was extended and specifies a dissolution date of December 31, 2022. If the term of the Partnership is not extended prior to the dissolution date of December 31, 2022, the Partnership agreement permits the Company, as holder of 80% of the applicable votes, to reconstitute the Partnership and continue its business. If for some reason the Partnership is not continued, it will be required to limit its activities to winding up, settling debts, liquidating assets and distributing proceeds to the partners in proportion to their partnership interests. Ownership interests attributable to the noncontrolling owner are presented as noncontrolling interests on the Company's consolidated financial statements. Under the terms of the Partnership agreement, the noncontrolling owner cannot force a redemption outside of the Company's control. As such, the noncontrolling interests in the Partnership are reflected as a component of permanent equity in the Company's consolidated financial statements.

**DISCOVERY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 14. REVENUES AND ACCOUNTS RECEIVABLE**

**Disaggregated Revenue**

The following table presents the Company's revenues disaggregated by revenue source (in millions). Management uses these categories of revenue to evaluate the performance of its businesses and to assess its financial results and forecasts.

	Year Ended December 31, 2020			
	U.S. Networks	International Networks	Corporate, inter-segment eliminations, and other	Total
Revenues:				
Advertising	\$ 4,012	\$ 1,571	\$ —	\$ 5,583
Distribution	2,852	2,014	—	4,866
Other	85	128	9	222
<b>Totals</b>	<b>\$ 6,949</b>	<b>\$ 3,713</b>	<b>\$ 9</b>	<b>\$ 10,671</b>

	Year Ended December 31, 2019			
	U.S. Networks	International Networks	Corporate, inter-segment eliminations, and other	Total
Revenues:				
Advertising	\$ 4,245	\$ 1,799	\$ —	\$ 6,044
Distribution	2,739	2,096	—	4,835
Other	108	146	11	265
<b>Totals</b>	<b>\$ 7,092</b>	<b>\$ 4,041</b>	<b>\$ 11</b>	<b>\$ 11,144</b>

	Year Ended December 31, 2018			
	U.S. Networks	International Networks	Corporate, inter-segment eliminations, and other	Total
Revenues:				
Advertising	\$ 3,749	\$ 1,765	\$ —	\$ 5,514
Distribution	2,456	2,082	—	4,538
Other	145	302	54	501
<b>Totals</b>	<b>\$ 6,350</b>	<b>\$ 4,149</b>	<b>\$ 54</b>	<b>\$ 10,553</b>

**Accounts Receivable and Credit Losses**

Receivables include amounts currently due from customers and are presented net of an estimate for lifetime expected credit losses. Allowance for credit losses is measured using historical loss rates for the respective risk categories and incorporating forward-looking estimates. To assess collectability, the Company analyzes market trends, economic conditions, the aging of receivables and customer specific risks, and records a provision for estimated credit losses expected over the lifetime of receivables. The corresponding expense for the expected credit losses is reflected in selling, general and administrative expenses. The Company does not require collateral with respect to trade receivables.

The Company's accounts receivable balances and the related credit losses arise primarily from distribution and advertising revenue. The Company monitors ongoing credit exposure through active review of customers' financial conditions, aging of receivable balances, historical collection trends, and expectations about relevant future events that may significantly affect collectability.

**DISCOVERY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Changes in allowance for credit losses consisted of the following (in millions):

	December 31, 2019	Impact of adoption of ASU 2016-13	Provisions for credit losses	Write-offs	December 31, 2020
Distribution customers	\$ 19	\$ 1	\$ 9	\$ (11)	\$ 18
Advertising and other customers	35	(3)	21	(12)	41
<b>Total</b>	<b>\$ 54</b>	<b>\$ (2)</b>	<b>\$ 30</b>	<b>\$ (23)</b>	<b>\$ 59</b>

**Contract Liability**

A contract liability, such as deferred revenue, is recorded when cash is received in advance of the Company's performance. Total deferred revenues, including both current and noncurrent, were \$649 million and \$597 million at December 31, 2020 and December 31, 2019, respectively. Noncurrent deferred revenue is a component of other noncurrent liabilities on the consolidated balance sheets. The change in deferred revenue for the year ended December 31, 2020 reflects cash payments received for which the performance obligation was not satisfied prior to the end of the period, partially offset by \$309 million of revenues recognized that were included in deferred revenue at December 31, 2019, which was primarily due to an increase in the delivery of advertising commitments during the period. Revenue recognized for the year ended December 31, 2019 related to the deferred revenue balance at December 31, 2018 was \$177 million.

**Transaction Price Allocated to Remaining Performance Obligations**

Most of the Company's distribution contracts are licenses of functional intellectual property where revenue is derived from royalty-based arrangements, for which the guidance allows the application of a practical expedient to record revenues as a function of royalties earned to date instead of estimating incremental royalty contract revenue. Accordingly, in these instances revenue is recognized based upon the royalties earned to date. However, there are certain other distribution arrangements that are fixed price or contain minimum guarantees that extend beyond one year. The Company recognizes revenue for fixed fee distribution contracts on a monthly basis based on minimum monthly fees or by calculating one twelfth of annual license fees specified in its distribution contracts. The transaction price allocated to remaining performance obligations within these fixed price or minimum guarantee distribution revenue contracts was \$1.3 billion as of December 31, 2020 and is expected to be recognized over the next five years.

The Company's content licensing contracts and sports sublicensing deals are licenses of functional intellectual property. Certain of these arrangements extend beyond one year. The transaction price allocated to remaining performance obligations on these long-term contracts was \$807 million as of December 31, 2020 and is expected to be recognized over the next four years.

The Company's brand licensing contracts are licenses of symbolic intellectual property. Certain of these arrangements extend beyond one year. The transaction price allocated to remaining performance obligations on these long-term contracts was \$99 million as of December 31, 2020 and is expected to be recognized over the next 11 years.

The value of unsatisfied performance obligations disclosed above does not include: (i) contracts involving variable consideration for which revenues are recognized in accordance with the usage-based royalty exception, and (ii) contracts with an original expected length of one year or less, such as advertising contracts.

**Capitalized Contract Costs**

Sales commissions are generally expensed as incurred because contracts for which the sales commissions are generated are one year or less or are not material. Sales commissions are recorded as a component of cost of revenues on the consolidated statements of operations. The financing component of content licensing arrangements is not capitalized, because the period between delivery of the license and customer payment is one year or less or is not material.

**NOTE 15. SHARE-BASED COMPENSATION**

The Company has various incentive plans under which PRSUs, RSUs, stock options and SARs have been issued. As of December 31, 2020, the Company has reserved a total of 96 million shares of its Series A and Series C common stock for future exercises, vestings and grants of stock options, stock-settled SARs, PRSUs and RSUs. Upon exercise or vesting of stock awards, the Company issues new shares from its existing authorized but unissued shares. There were 58 million shares of common stock in reserves that were available for future issuance under the incentive plans as of December 31, 2020.

**DISCOVERY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Share-Based Compensation Expense**

The table below presents the components of share-based compensation expense (in millions).

	Year Ended December 31,		
	2020	2019	2018
PRsUs	\$ 8	\$ 46	\$ 24
RSUs	76	41	27
Stock options	30	33	22
SARs	(4)	22	8
ESPP and other	—	—	(1)
Total share-based compensation expense	<u>\$ 110</u>	<u>\$ 142</u>	<u>\$ 80</u>
Tax benefit recognized	<u>\$ 18</u>	<u>\$ 17</u>	<u>\$ 13</u>

Liability-classified share-based compensation awards include certain PRsUs and SARs. The Company recorded total liabilities for cash-settled and other liability-classified share-based compensation awards of \$55 million and \$93 million as of December 31, 2020 and 2019, respectively. The current portion of the liability for cash-settled and other liability-classified awards was \$37 million and \$47 million as of December 31, 2020 and 2019, respectively.

**Share-Based Award Activity**

**PRsUs**

The table below presents PRsU activity (in millions, except years and weighted-average grant price).

	PRsUs	Weighted-Average Grant Date Fair Value	Weighted-Average Remaining Contractual Term (years)	Aggregate Fair Value
Outstanding as of December 31, 2019	2.2	\$ 26.89	0.5	\$ 71
Granted	0.5	\$ 25.70		
Converted	(1.2)	\$ 26.79		\$ 33
Forfeited	—	\$ —		
Outstanding as of December 31, 2020	<u>1.5</u>	<u>\$ 26.57</u>	<u>0.0</u>	<u>\$ 45</u>
Vested and expected to vest as of December 31, 2020	<u>1.5</u>	<u>\$ 26.57</u>	<u>0.0</u>	<u>\$ 45</u>
Convertible as of December 31, 2020	<u>0.9</u>	<u>\$ 26.80</u>	<u>0.0</u>	<u>\$ 28</u>

The Company has granted PRsUs to certain senior level executives. PRsUs represent the contingent right to receive shares of the Company's Series A or C common stock, substantially all of which vest over three to four years based on continuous service and whether the Company achieves certain operating performance targets. The performance targets for substantially all PRsUs are cumulative measures of the Company's adjusted operating income before depreciation and amortization (as defined in Note 23), free cash flows and revenues over a three-year period. The number of PRsUs that vest principally range from 0% to 100% based on a sliding scale where achieving or exceeding the performance target will result in 100% of the PRsUs vesting and achieving less than 80% of the target will result in no portion of the PRsUs vesting. Additionally, for certain PRsUs, the Company's Compensation Committee has discretion in determining the final amount of units that vest, but may not increase the amount of any PRsU award above 100%. Upon vesting, each PRsU becomes convertible into one share of the Company's Series A or Series C common stock as applicable. Holders of PRsUs do not receive payments of dividends in the event the Company pays a cash dividend until such PRsUs are converted into shares of the Company's common stock.

As of December 31, 2020, unrecognized compensation cost related to PRsUs was immaterial.

**DISCOVERY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**RSUs**

The table below presents RSU activity (in millions, except years and weighted-average grant price).

	RSUs	Weighted-Average Grant Date Fair Value	Weighted-Average Remaining Contractual Term (years)	Aggregate Fair Value
Outstanding as of December 31, 2019	6.5	\$ 27.14	1.5	\$ 213
Granted	4.6	\$ 25.50		
Vested	(1.7)	\$ 26.82		\$ 45
Forfeited	(0.8)	\$ 27.13		
Outstanding as of December 31, 2020	<u>8.6</u>	<u>\$ 26.31</u>	<u>2.8</u>	<u>\$ 259</u>
Vested and expected to vest as of December 31, 2020	<u>8.6</u>	<u>\$ 26.31</u>	<u>2.8</u>	<u>\$ 259</u>

RSUs represent the contingent right to receive shares of the Company's Series A or C common stock, substantially all of which vest ratably each year over periods of one to four years based on continuous service. As of December 31, 2020, there was \$204 million of unrecognized compensation cost related to RSUs, of which \$59 million is related to cash settled RSUs. Stock settled RSUs are expected to be recognized over a weighted-average period of 1.2 years and cash settled RSUs are expected to be recognized over a weighted-average period of 3.0 years.

**Stock Options**

The table below presents stock option activity (in millions, except years and weighted-average exercise price).

	Stock Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding as of December 31, 2019	21.4	\$ 29.24	4.7	\$ 83
Granted	1.3	\$ 25.70		
Exercised	(0.4)	\$ 19.75		\$ 3
Forfeited	(1.3)	\$ 32.66		
Outstanding as of December 31, 2020	<u>21.0</u>	<u>\$ 29.00</u>	<u>4.0</u>	<u>\$ 41</u>
Vested and expected to vest as of December 31, 2020	<u>21.0</u>	<u>\$ 29.00</u>	<u>4.0</u>	<u>\$ 41</u>
Exercisable as of December 31, 2020	<u>6.5</u>	<u>\$ 27.90</u>	<u>2.6</u>	<u>\$ 20</u>

Stock options are granted with an exercise price equal to or in excess of the closing market price of the Company's Series A or Series C common stock on the date of grant. Substantially all stock options vest ratably over three to four years from the grant date based on continuous service and expire seven to ten years from the date of grant. Stock option awards generally provide for accelerated vesting upon retirement or after reaching a specified age and years of service. The Company received cash payments from the exercise of stock options totaling \$8 million, \$17 million and \$68 million during 2020, 2019 and 2018, respectively. As of December 31, 2020, there was \$65 million of unrecognized compensation cost related to stock options, which is expected to be recognized over a weighted-average period of 1.8 years.

The fair value of stock options is estimated using the Black-Scholes option-pricing model. The weighted-average assumptions used to determine the fair value of stock options as of the date of grant during 2020, 2019 and 2018 were as follows.

	Year Ended December 31,		
	2020	2019	2018
Risk-free interest rate	0.89 %	2.67 %	2.74 %
Expected term (years)	5	5.5	5.5
Expected volatility	31.86 %	30.44 %	29.57 %
Dividend yield	—	—	—

**DISCOVERY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The weighted-average grant date fair value of options granted during 2020, 2019 and 2018 was \$7.57, \$8.43 and \$7.95, respectively, per option. The total intrinsic value of options exercised during 2020, 2019 and 2018 was \$3 million, \$4 million and \$30 million, respectively.

**SARs**

The table below presents SAR award activity (in millions, except years and weighted-average grant price).

	SARs	Weighted-Average Grant Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding as of December 31, 2019	4.9	\$ 24.44	0.8	\$ 35
Granted	—	\$ —		
Settled	(2.3)	\$ 24.88		\$ 14
Forfeited	—	\$ —		
Outstanding as of December 31, 2020	<u>2.6</u>	<u>\$ 24.01</u>	<u>0.5</u>	<u>\$ 12</u>
Vested and expected to vest as of December 31, 2020	<u>2.6</u>	<u>\$ 24.01</u>	<u>0.5</u>	<u>\$ 12</u>

SAR award grants include cash-settled SARs and stock-settled SARs. Cash-settled SARs entitle the holder to receive a cash payment for the amount by which the price of the Company's Series A or Series C common stock exceeds the base price established on the grant date. Cash-settled SARs are granted with a base price equal to or greater than the closing market price of the Company's Series A or Series C common stock on the date of grant. Stock-settled SARs entitle the holder to shares of Series A or Series C common stock in accordance with the award agreement terms.

The fair value of outstanding SARs is estimated using the Black-Scholes option-pricing model. The weighted-average assumptions used to determine the fair value of outstanding SARs were as follows.

	Year Ended December 31,		
	2020	2019	2018
Risk-free interest rate	0.10 %	1.60 %	2.53 %
Expected term (years)	0.5	0.8	1.2
Expected volatility	42.13 %	30.54 %	36.52 %
Dividend yield	—	—	—

As of December 31, 2020 and 2019, the weighted-average fair value of SARs outstanding was \$5.48 and \$8.28 per award. The Company made cash payments of \$11 million and \$2 million to settle exercised SARs during 2020 and 2019, respectively. The Company made no cash payments to settle exercised SARs during 2018. As of December 31, 2020, there was \$2 million of unrecognized compensation cost related to SARs, which is expected to be recognized over a weighted-average period of 0.7 years.

**Employee Stock Purchase Plan**

The ESPP enables eligible employees to purchase shares of the Company's common stock through payroll deductions or other permitted means. Unless otherwise determined by the Company's Compensation Committee, the purchase price for shares offered under the ESPP is 85% of the closing price of the Company's Series A common stock on the purchase date. The Company's Board of Directors has authorized 8 million shares of the Company's common stock to be issued under the ESPP. During the years ended December 31, 2020, 2019 and 2018 the Company issued 254 thousand, 142 thousand and 133 thousand shares under the ESPP, respectively, and received cash totaling \$5 million, \$3 million and \$3 million, respectively.

**NOTE 16. RETIREMENT SAVINGS PLANS**

The Company has defined contribution, defined benefit, and other savings plans for the benefit of its employees that meet eligibility requirements.

**DISCOVERY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Defined Contribution Plans**

Eligible employees may contribute a portion of their compensation to the plans, which may be subject to certain statutory limitations. For these plans, the Company also makes contributions, including discretionary contributions, subject to plan provisions, which vest immediately. The Company made total contributions of \$47 million, \$37 million and \$44 million for the years ended December 31, 2020, 2019 and 2018, respectively. The Company's contributions were recorded in cost of revenues and selling, general and administrative expense in the consolidated statements of operations.

**Executive Deferred Compensation Plans**

The Company's savings plans also include a deferred compensation plan through which members of the Company's executive team in the U.S. may elect to defer a portion of their eligible compensation. The amounts deferred are invested in various mutual funds at the direction of the executive, which are used to finance payment of the deferred compensation obligation. Distributions from the deferred compensation plan are made upon termination or other events as specified in the plan. The Company has established separate rabbi trusts to hold the investments that finance the deferred compensation obligation. The accounts of the separate rabbi trusts are included in the Company's consolidated financial statements. The investments are included in prepaid expenses and other current assets and other noncurrent assets in the consolidated balance sheets. The deferred compensation obligation is included in accrued liabilities and other noncurrent liabilities in the consolidated balance sheets. The values of the investments and deferred compensation obligation are recorded at fair value. Changes in the fair value of the investments are offset by changes in the fair value of the deferred compensation obligation and are recorded in earnings as a component of other income (expense), net, on the consolidated statements of operations. (See Note 5.)

**Defined Benefit Plans**

As a result of the acquisition of Scripps Networks in 2018, the Company assumed a defined benefit pension plan ("Pension Plan") that covers certain U.S. based employees and a non-qualified unfunded Supplemental Executive Retirement Plan ("SERP") that provides defined pension benefits to eligible executives. Expense recognized in relation to the Pension Plan and SERP is based upon actuarial valuations. Inherent in those valuations are key assumptions including discount rates and, where applicable, expected returns on assets. Discount rates are based on a bond portfolio approach that includes high-quality debt instruments with maturities matching the Company's expected benefit payments from the plans. Expected returns on assets are based on the weighted-average expected rate of return and capital market forecasts for each asset class employed and also consider the Company's historical compounded return on plan assets for 10 and 15-year periods. Benefits are generally based on the employee's compensation and years of service. Since December 31, 2009, no additional service benefits have been earned by participants under the Pension Plan. The amount of eligible compensation that is used to calculate a plan participant's pension benefit includes compensation earned by the employee through December 31, 2019, after which time all plan participants have a frozen pension benefit. Net periodic pension cost was not material for the years ended December 31, 2020, 2019 and 2018.

The projected benefit obligation, fair value of plan assets and discount rate used in determining the projected benefit obligations were as follows (in millions).

	Pension Plan		SERP	
	December 31,			
	2020	2019	2020	2019
Projected benefit obligation	\$ 94	\$ 90	\$ 25	\$ 26
Fair value of plan assets (Level 1)	\$ 70	\$ 68	\$ —	\$ —
Discount rate	1.92 %	2.82 %	1.58 %	2.61 %

**NOTE 17. RESTRUCTURING AND OTHER CHARGES**

Restructuring and other charges by reportable segment and corporate, inter-segment eliminations, and other were as follows (in millions).

	Year Ended December 31,		
	2020	2019	2018
U.S. Networks	\$ 41	\$ 15	\$ 322
International Networks	29	20	307
Corporate, inter-segment eliminations, and other	21	(9)	121
Total restructuring and other charges	\$ 91	\$ 26	\$ 750

**DISCOVERY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Restructuring charges for the years ended December 31, 2020 and 2019 primarily include charges related to employee termination costs and other cost reduction efforts. During 2020, the Company implemented various cost-savings initiatives including personnel reductions, restructurings and resource reallocations to align its expense structure to ongoing changes within the industry, including economic challenges resulting from the COVID-19 pandemic. These actions are intended to enable the Company to more efficiently operate in a leaner and more directed cost structure and are expected to continue into 2021; however, all such amounts cannot be reasonably estimated at this time as the restructuring plans have not been finalized. Restructuring charges for year ended December 31, 2018 include employee terminations, facility closures, and contract terminations, which include costs to terminate certain production commitments, life of series production and content licensing contracts. Other restructuring charges for the year ended December 31, 2018 consisted of \$405 million of content write-offs, which resulted from a global strategic review of content following the acquisition of Scripps Networks.

Changes in restructuring and other liabilities recorded in accrued liabilities by reportable segment and corporate, inter-segment eliminations, and other were as follows (in millions).

	U.S. Networks	International Networks	Corporate, inter-segment eliminations, and other	Total
December 31, 2018	\$ 16	\$ 46	\$ 46	\$ 108
Net contract termination accruals	—	—	(6)	(6)
Employee termination accruals, net	15	20	(10)	25
Other accruals, net	—	—	1	1
Cash paid	(27)	(61)	(22)	(110)
December 31, 2019	4	5	9	18
Net contract termination accruals	—	—	4	4
Employee termination accruals, net	41	29	13	83
Other accruals, net	—	—	4	4
Cash paid	(22)	(14)	(15)	(51)
December 31, 2020	\$ 23	\$ 20	\$ 15	\$ 58

**NOTE 18. INCOME TAXES**

The domestic and foreign components of income before income taxes were as follows (in millions).

	Year Ended December 31,		
	2020	2019	2018
Domestic	\$ 1,916	\$ 1,910	\$ 1,125
Foreign	(188)	384	(103)
Income before income taxes	\$ 1,728	\$ 2,294	\$ 1,022

**DISCOVERY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The components of the provision for income taxes were as follows (in millions).

	Year Ended December 31,		
	2020	2019	2018
<b>Current:</b>			
Federal	\$ 422	\$ 411	\$ 323
State and local	12	42	30
Foreign	125	132	119
	<u>559</u>	<u>585</u>	<u>472</u>
<b>Deferred:</b>			
Federal	(14)	(54)	(113)
State and local	(24)	(8)	(21)
Foreign	(148)	(442)	3
	<u>(186)</u>	<u>(504)</u>	<u>(131)</u>
<b>Income taxes</b>	<u>\$ 373</u>	<u>\$ 81</u>	<u>\$ 341</u>

The following table reconciles the Company's effective income tax rates to the U.S. federal statutory income tax rates.

	Year Ended December 31,					
	2020		2019		2018	
Pre-tax income at U.S. federal statutory income tax rate	\$ 363	21 %	\$ 482	21 %	\$ 215	21 %
State and local income taxes, net of federal tax benefit	(10)	— %	27	1 %	10	1 %
Effect of foreign operations	7	— %	(21)	(1)%	111	11 %
Noncontrolling interest adjustment	(29)	(2)%	(30)	(1)%	(18)	(2)%
Impairment of goodwill	25	2 %	32	1 %	—	— %
Deferred tax adjustment	(22)	(1)%	—	— %	—	— %
Non-deductible compensation	17	1 %	22	1 %	20	2 %
Change in uncertain tax positions	17	1 %	3	— %	37	3 %
Legal entity restructuring, deferred tax impact	—	— %	(445)	(19)%	—	— %
Renewable energy investments tax credits	—	— %	(1)	— %	(12)	(1)%
U.S. legislative changes	—	— %	—	— %	(19)	(2)%
Other, net	5	— %	12	1 %	(3)	— %
<b>Income tax expense</b>	<u>\$ 373</u>	<u>22 %</u>	<u>\$ 81</u>	<u>4 %</u>	<u>\$ 341</u>	<u>33 %</u>

Income tax expense was \$373 million and \$81 million, and the Company's effective tax rate was 22% and 4% for 2020 and 2019, respectively. The increase in income tax expense for the year ended December 31, 2020 was primarily attributable to the discrete, one-time, non-cash deferred tax benefit of \$445 million from legal entity restructurings that was recorded during the year ended December 31, 2019. Additionally, the increase in income tax expense was attributable to an increase in provision for uncertain tax positions and an increase in the effect of foreign operations. Those increases were partially offset by a decrease in pre-tax book income, a tax benefit from a favorable multi-year state resolution, and a favorable deferred tax adjustment in the U.S. that was recorded during the year ended December 31, 2020.

**DISCOVERY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Income tax expense was \$81 million and \$341 million, and the Company's effective tax rate was 4% and 33% for 2019 and 2018, respectively. The decrease in income tax expense for the year ended December 31, 2019 was primarily attributable to the discrete, one-time, non-cash deferred tax benefit of \$445 million from legal entity restructurings. Additionally, the decrease in income tax expense was attributable to a decrease in the provision for uncertain tax positions and a decrease in the effect of foreign operations, which was mainly driven by the establishment of certain valuation allowances during the year ended December 31, 2018 that did not recur in 2019, and a tax benefit realized during the year ended December 31, 2019 from the final regulations related to the determination of the foreign tax credit released by the U.S. Treasury department and IRS in December 2019. This decrease was partially offset by an increase in income and the impact of a goodwill impairment charge that was non-deductible for tax purposes during the year ended December 31, 2019. Finally, the income tax expense for the year ended December 31, 2018 included a one-time discrete tax benefit from U.S. legislative changes that extended the accelerated deduction of qualified film productions.

Components of deferred income tax assets and liabilities were as follows (in millions).

	December 31,	
	2020	2019
<b>Deferred income tax assets:</b>		
Accounts receivable	\$ 7	\$ 12
Tax attribute carry-forward	354	311
Accrued liabilities and other	471	342
<b>Total deferred income tax assets</b>	<b>832</b>	<b>665</b>
Valuation allowance	(257)	(307)
<b>Net deferred income tax assets</b>	<b>575</b>	<b>358</b>
<b>Deferred income tax liabilities:</b>		
Intangible assets	(654)	(849)
Content rights	(163)	(148)
Equity method and other investments in partnerships	(470)	(471)
Noncurrent portion of debt	(85)	—
Other	(140)	(106)
<b>Total deferred income tax liabilities</b>	<b>(1,512)</b>	<b>(1,574)</b>
<b>Net deferred income tax liabilities</b>	<b>\$ (937)</b>	<b>\$ (1,216)</b>

The Company's net deferred income tax assets and liabilities were reported on the consolidated balance sheets as follows (in millions).

	December 31,	
	2020	2019
Noncurrent deferred income tax assets (included within other noncurrent assets)	\$ 597	\$ 475
Deferred income tax liabilities	(1,534)	(1,691)
<b>Net deferred income tax liabilities</b>	<b>\$ (937)</b>	<b>\$ (1,216)</b>

The Company's loss carry-forwards were reported on the consolidated balance sheets as follows (in millions).

	Federal	State	Foreign
Loss carry-forwards	\$ 9	\$ 315	\$ 2,303
Deferred tax asset related to loss carry-forwards	2	16	269
Valuation allowance against loss carry-forwards	—	(15)	(138)
Earliest expiration date of loss carry-forwards	2034	2021	2021

**DISCOVERY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

A reconciliation of the beginning and ending amounts of unrecognized tax benefits (without related interest and penalty amounts) is as follows (in millions).

	Year Ended December 31,		
	2020	2019	2018
Beginning balance	\$ 375	\$ 378	\$ 189
Additions based on tax positions related to the current year	31	54	43
Additions for tax positions of prior years	4	11	52
Additions for tax positions acquired in business combinations	—	47	169
Reductions for tax positions of prior years	(5)	(47)	(9)
Settlements	(9)	(19)	(6)
Reductions due to lapse of statutes of limitations	(51)	(50)	(52)
Changes due to foreign currency exchange rates	3	1	(8)
Ending balance	<u>\$ 348</u>	<u>\$ 375</u>	<u>\$ 378</u>

The balances as of December 31, 2020, 2019 and 2018 included \$348 million, \$375 million and \$378 million, respectively, of unrecognized tax benefits that, if recognized, would reduce the Company's income tax expense and effective tax rate after giving effect to interest deductions and offsetting benefits from other tax jurisdictions. For the year ended December 31, 2020, decreases in unrecognized tax benefits related to multiple audit resolutions and the lapse of statutes of limitations were offset by the uncertainty of allocation and taxation of income among multiple jurisdictions.

The Company and its subsidiaries file income tax returns in the U.S. and various state and foreign jurisdictions. The Company is currently under audit by the Internal Revenue Service for its 2012 to 2015 consolidated federal income tax returns. It is difficult to predict the final outcome or timing of resolution of any particular tax matter. Accordingly, an estimate of any related impact to the reserve for uncertain tax positions cannot currently be determined. With few exceptions, the Company is no longer subject to audit by any jurisdiction for years prior to 2006. Adjustments that arose from the completion of audits for certain tax years have been included in the change in uncertain tax positions in the table above.

It is reasonably possible that the total amount of unrecognized tax benefits related to certain of the Company's uncertain tax positions could decrease by as much as \$71 million within the next twelve months as a result of ongoing audits, foreign judicial proceedings, lapses of statutes of limitations or regulatory developments.

As of December 31, 2020, 2019 and 2018, the Company had accrued approximately \$53 million, \$58 million, and \$51 million, respectively, of total interest and penalties payable related to unrecognized tax benefits. The Company recognizes interest and penalties related to unrecognized tax benefits as a component of income tax expense.

**NOTE 19. EARNINGS PER SHARE**

In calculating earnings per share, the Company follows the two-class method, which distinguishes between classes of securities based on the proportionate participation rights of each security type in the Company's undistributed income. The Company's Series A, B and C common stock is treated as one class and the Series C-1 convertible preferred stock is treated as a separate class for purposes of applying the two-class method. The Company's Series C-1 convertible preferred stock is an in-substance common stock equivalent as it has substantially equal rights and shares equally on an as-converted basis with respect to income available to Discovery, Inc. The Company's Series A-1 convertible preferred stock is also a separate class but is not considered a common stock equivalent and therefore is not presented separately in the calculation of earnings per share. Series A-1 convertible preferred stock is currently convertible into 9 shares of the Company's Series A common stock and Series C-1 convertible preferred stock is convertible into 19.3648 shares of the Company's Series C common stock, subject to certain anti-dilution adjustments. During the years ended December 31, 2020 and 2018, no Series A-1 or C-1 convertible preferred stock was converted. During the year ended December 31, 2019, Advance Newhouse Programming Partnership converted 1.1 million of its Series C-1 convertible preferred stock into 22.0 million shares of Series C common stock.

**DISCOVERY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Net income allocated to Discovery, Inc. Series C-1 convertible preferred stockholders for diluted net income per share is included in net income allocated to Discovery, Inc. Series A, B and C common stockholders for diluted net income per share. The weighted average number of diluted shares outstanding adjusts the weighted average number of shares of Series A, B and C common stock outstanding for the potential dilution that would occur if common stock equivalents, including convertible preferred stock and share-based awards, were converted into common stock or exercised, calculated using the treasury stock method. The computation of the diluted earnings per share of Series A, B and C common stockholders assumes the conversion of Series A-1 and C-1 convertible preferred stock, while the diluted earnings per share amounts of Series C-1 convertible preferred stock does not assume conversion of those shares.

The table below sets forth the computation for income (loss) available to Discovery, Inc. stockholders (in millions). Earnings per share amounts may not recalculate due to rounding.

	Year Ended December 31,		
	2020	2019	2018
<b>Numerator:</b>			
Net income	\$ 1,355	\$ 2,213	\$ 681
<b>Less:</b>			
Allocation of undistributed income to Series A-1 convertible preferred stock	(128)	(204)	(60)
Net income attributable to noncontrolling interests	(124)	(128)	(67)
Net income attributable to redeemable noncontrolling interests	(12)	(16)	(20)
Redeemable noncontrolling interest adjustments to redemption value	—	(20)	(5)
Net income available to Discovery, Inc. Series A, B and C common and Series C-1 convertible preferred stockholders for basic net income per share	\$ 1,091	\$ 1,845	\$ 529
<b>Allocation of net income:</b>			
Series A, B and C common stockholders	919	1,531	429
Series C-1 convertible preferred stockholders	172	314	100
Total	1,091	1,845	529
<b>Add:</b>			
Allocation of undistributed income to Series A-1 convertible preferred stockholders	128	204	60
Net income available to Discovery, Inc. Series A, B and C common stockholders for diluted net income per share	\$ 1,219	\$ 2,049	\$ 589
<b>Denominator — weighted average:</b>			
Series A, B and C common shares outstanding — basic	505	529	498
Impact of assumed preferred stock conversion	165	179	187
Dilutive effect of share-based awards	2	3	3
Series A, B and C common shares outstanding — diluted	672	711	688
Series C-1 convertible preferred stock outstanding — basic and diluted	5	6	6
<b>Basic net income per share allocated to:</b>			
Series A, B and C common stockholders	\$ 1.82	\$ 2.90	\$ 0.86
Series C-1 convertible preferred stockholders	\$ 35.24	\$ 56.07	\$ 16.65
<b>Diluted net income per share allocated to:</b>			
Series A, B and C common stockholders	\$ 1.81	\$ 2.88	\$ 0.86
Series C-1 convertible preferred stockholders	\$ 35.12	\$ 55.80	\$ 16.58

**DISCOVERY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The table below presents the details of share-based awards that were excluded from the calculation of diluted earnings per share (in millions).

	Year Ended December 31,		
	2020	2019	2018
Anti-dilutive share-based awards	24	17	15
PRSUs whose performance targets have not yet been achieved	—	—	1

Only outstanding PRSUs whose performance targets have been achieved as of the last day of the most recent period are included in the dilutive effect calculation.

**NOTE 20. SUPPLEMENTAL DISCLOSURES**

**Property and equipment**

Property and equipment consisted of the following (in millions).

	Useful Lives	December 31,	
		2020	2019
Broadcast equipment <sup>(a)</sup>	3 - 5 years	\$ 744	\$ 676
Office equipment, furniture, fixtures and other	3 - 5 years	734	606
Capitalized software costs	2 - 5 years	757	519
Land, buildings and leasehold improvements <sup>(b)</sup>	39 years	334	298
Property and equipment, at cost		2,569	2,099
Accumulated depreciation		(1,363)	(1,148)
Property and equipment, net		\$ 1,206	\$ 951

<sup>(a)</sup> Property and equipment includes assets acquired under finance lease arrangements, primarily satellite transponders classified as broadcast equipment. Assets acquired under finance lease arrangements are amortized using the straight-line method over the lesser of the estimated useful lives of the assets or the terms of the related leases. (See Note 9.)

<sup>(b)</sup> Land has an indefinite life and is not depreciated. Leasehold improvements have an estimated useful life of the shorter of five years or the lease term.

Capitalized software costs are for internal use. The net book value of capitalized software costs was \$309 million and \$176 million as of December 31, 2020 and 2019, respectively. The related accumulated amortization was \$448 million and \$343 million as of December 31, 2020 and 2019, respectively.

Depreciation expense for property and equipment totaled \$267 million, \$207 million and \$229 million for the years ended December 31, 2020, 2019 and 2018, respectively.

**Accrued Liabilities**

Accrued liabilities consisted of the following (in millions):

	December 31,	
	2020	2019
Accrued payroll and related benefits	\$ 494	\$ 425
Content rights payable	528	456
Other accrued liabilities	771	797
Total accrued liabilities	\$ 1,793	\$ 1,678

**DISCOVERY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Other income (expense), net**

Other income (expense), net, consisted of the following (in millions):

	Year Ended December 31,		
	2020	2019	2018
Foreign currency (losses) gains, net	\$ (115)	\$ 17	\$ (93)
Gain on sale of investment with readily determinable fair value	101	—	—
Gains (losses) on derivatives not designated as hedges	29	(52)	50
Change in the value of investments with readily determinable fair value	28	(26)	(88)
Expenses from debt modification	(11)	—	—
Interest income	10	22	15
Gain on sale of equity method investments	2	13	—
Remeasurement gain on previously held equity interest	—	14	—
Other (expense) income, net	(2)	4	(4)
Total other income (expense), net	<u>\$ 42</u>	<u>\$ (8)</u>	<u>\$ (120)</u>

**Supplemental Cash Flow Information**

	Year Ended December 31,		
	2020	2019	2018
Cash paid for taxes, net	\$ 641	\$ 562	\$ 389
Cash paid for interest	673	708	740
Non-cash investing and financing activities:			
Receivable from sale of fuboTV Inc. shares	124	—	—
Equity issued for the acquisition of Scripps Networks	—	—	3,218
Disposal of UKTV investment and acquisition of Lifestyle Business	—	291	—
Accrued purchases of property and equipment	48	47	39
Assets acquired under finance lease and other arrangements	91	38	58
Equity exchange with Harpo for step acquisition of OWN	59	—	—
Unsettled stock repurchases	—	4	—

**Cash, Cash Equivalents, and Restricted Cash**

	December 31, 2020	December 31, 2019
Cash, cash equivalents, and restricted cash:		
Cash and cash equivalents	\$ 2,091	\$ 1,552
Restricted cash - other current assets <sup>(a)</sup>	31	—
Total cash, cash equivalents, and restricted cash	<u>\$ 2,122</u>	<u>\$ 1,552</u>

<sup>(a)</sup> Restricted cash includes cash posted as collateral related to forward starting interest rate swap contracts that were executed during years ended December 31, 2020 and 2019. (See Note 10.)

**DISCOVERY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 21. RELATED PARTY TRANSACTIONS**

In the normal course of business, the Company enters into transactions with related parties. Related parties include entities that share common directorship, such as Liberty Global plc (“Liberty Global”), Liberty Broadband Corporation (“Liberty Broadband”) and their subsidiaries and equity method investees (together the “Liberty Group”). Discovery’s Board of Directors includes Mr. Malone, who is Chairman of the Board of Liberty Global and beneficially owns approximately 30% of the aggregate voting power with respect to the election of directors of Liberty Global. Mr. Malone is also Chairman of the Board of Liberty Broadband and beneficially owns approximately 48% of the aggregate voting power with respect to the election of directors of Liberty Broadband. The majority of the revenue earned from the Liberty Group relates to multi-year network distribution arrangements. Related party transactions also include revenues and expenses for content and services provided to or acquired from equity method investees or minority partners of consolidated subsidiaries.

	Year Ended December 31,		
	2020	2019 <sup>(a)</sup>	2018 <sup>(a)</sup>
Revenues and service charges:			
Liberty Group	\$ 686	\$ 668	\$ 640
Equity method investees	223	210	270
Other	103	111	134
Total revenues and service charges	\$ 1,012	\$ 989	\$ 1,044
Interest income	\$ —	\$ 1	\$ 4
Expenses	\$ (244)	\$ (224)	\$ (257)
Distributions to noncontrolling interests and redeemable noncontrolling interests	\$ (254)	\$ (250)	\$ (76)

The table below presents amounts due from and to related parties (in millions).

	December 31,	
	2020	2019 <sup>(a)</sup>
Receivables	\$ 177	\$ 161
Payables	43	105

<sup>(a)</sup> Amounts have been revised to adjust for classification between lines and excluded balances solely within this footnote disclosure. Revised amounts are not material to the previously issued financial statements.

**NOTE 22. COMMITMENTS, CONTINGENCIES, AND GUARANTEES**

**Commitments**

In the normal course of business, the Company enters into various commitments, which primarily include programming and talent arrangements, operating and finance leases (see Note 9), arrangements to purchase various goods and services, and future funding commitments to equity method investees.

Year Ending December 31,	Content	Other	Total
2021	\$ 1,698	\$ 576	\$ 2,274
2022	626	345	971
2023	479	222	701
2024	777	53	830
2025	336	32	368
Thereafter	1,137	69	1,206
Total	\$ 5,053	\$ 1,297	\$ 6,350

**DISCOVERY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Content purchase obligations include commitments and liabilities associated with third-party producers and sports associations for content that airs on our television networks. Production contracts generally require: purchase of a specified number of episodes; payments over the term of the license; and include both programs that have been delivered and are available for airing and programs that have not yet been produced or sporting events that have not yet taken place. If the content is ultimately never produced, our commitments expire without obligation. The commitments disclosed above exclude content liabilities recognized on the consolidated balance sheet.

Other purchase obligations include agreements with certain vendors and suppliers for the purchase of goods and services whereby the underlying agreements are enforceable, legally binding and specify all significant terms. Significant purchase obligations include transmission services, television rating services, marketing research, employment contracts, equipment purchases, and information technology and other services. Some of these contracts do not require the purchase of fixed or minimum quantities and generally may be terminated with a 30-day to 60-day advance notice without penalty, and are not included in the table above past the 30-day to 60-day advance notice period. Amounts related to employment contracts include base compensation, but do not include compensation contingent on future events.

Although the Company had funding commitments to equity method investees as of December 31, 2020, the Company may also provide uncommitted additional funding to its equity method investments in the future. (See Note 4.)

**Contingencies**

***Put Rights***

The Company has granted put rights to certain consolidated subsidiaries. (See Note 11.)

***Legal Matters***

The Company is party to various lawsuits and claims in the ordinary course of business, including claims related to employees, vendors, other business partners or patent issues. However, a determination as to the amount of the accrual required for such contingencies is highly subjective and requires judgment about future events. Although the outcome of these matters cannot be predicted with certainty and the impact of the final resolution of these matters on the Company's results of operations in a particular subsequent reporting period is not known, management does not believe that the resolution of these matters will have a material adverse effect on the Company's future consolidated financial position, future results of operations or cash flows.

During the year ended December 31, 2019, a withholding tax claim recorded as part of the Scripps Networks purchase accounting was settled with a portion of the claim being resolved subsequent to the measurement period, which resulted in a reversal of the remaining accrual and a reduction in selling, general, and administrative expense of \$29 million.

***Guarantees***

There were no guarantees recorded under ASC 460 as of December 31, 2020 and 2019.

In the normal course of business, the Company may provide or receive indemnities that are intended to allocate certain risks associated with business transactions. Similarly, the Company may remain contingently liable for certain obligations of a divested business in the event that a third party does not fulfill its obligations under an indemnification obligation. The Company records a liability for its indemnification obligations and other contingent liabilities when probable and estimable. There were no material amounts for indemnifications or other contingencies recorded as of December 31, 2020 and 2019.

**NOTE 23. REPORTABLE SEGMENTS**

The Company's operating segments are determined based on: (i) financial information reviewed by its chief operating decision maker ("CODM"), the Chief Executive Officer ("CEO"), (ii) internal management and related reporting structure, and (iii) the basis upon which the CEO makes resource allocation decisions.

The accounting policies of the reportable segments are the same as the Company's, except that certain inter-segment transactions that are eliminated for consolidation are not eliminated at the segment level. Inter-segment transactions primarily include advertising and content purchases. The Company does not report assets by segment because this is not used to allocate resources or evaluate segment performance.

**DISCOVERY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The Company evaluates the operating performance of its segments based on financial measures such as revenues and adjusted operating income before depreciation and amortization (“Adjusted OIBDA”). Adjusted OIBDA is defined as operating income excluding: (i) employee share-based compensation, (ii) depreciation and amortization, (iii) restructuring and other charges, (iv) certain impairment charges, (v) gains and losses on business and asset dispositions, (vi) certain inter-segment eliminations related to production studios, (vii) third-party transaction costs directly related to the acquisition and integration of Scripps Networks and other transactions, and (viii) other items impacting comparability, such as the non-cash settlement of a withholding tax claim. (See Note 22.) The Company uses this measure to assess the operating results and performance of its segments, perform analytical comparisons, identify strategies to improve performance and allocate resources to each segment. The Company believes Adjusted OIBDA is relevant to investors because it allows them to analyze the operating performance of each segment using the same metric management uses. The Company excludes share-based compensation, restructuring and other charges, certain impairment charges, gains and losses on business and asset dispositions and acquisition and integration costs from the calculation of Adjusted OIBDA due to their impact on comparability between periods. The Company also excludes depreciation of fixed assets and amortization of intangible assets, as these amounts do not represent cash payments in the current reporting period. Certain corporate expenses and inter-segment eliminations related to production studios are excluded from segment results to enable executive management to evaluate segment performance based upon the decisions of segment executives. Adjusted OIBDA and Total Adjusted OIBDA should be considered in addition to, but not a substitute for, operating income, net income and other measures of financial performance reported in accordance with U.S. GAAP.

Effective January 1, 2019, the Company's definition of Adjusted OIBDA was modified to exclude all employee share-based compensation, whereas only mark-to-market share-based compensation was previously excluded. Over time, the Company has moved to a higher percentage of equity classified awards (in lieu of liability classified awards, which require mark-to-market accounting) under its stock incentive plans and expects to continue this practice in future periods. Since most equity classified awards are non-cash expenses not entirely under management control, the Company has elected to exclude all employee share-based compensation from Adjusted OIBDA beginning in 2019. The revised definition of Adjusted OIBDA will be used by the Company's CODM in evaluating segment performance in 2019. Accordingly, prior period amounts have been recast to reflect the current definition.

The tables below present summarized financial information for each of the Company's reportable segments and corporate, inter-segment eliminations, and other (in millions).

**Revenues**

	Year Ended December 31,		
	2020	2019	2018
U.S. Networks	\$ 6,949	\$ 7,092	\$ 6,350
International Networks	3,713	4,041	4,149
Corporate, inter-segment eliminations, and other	9	11	54
Total revenues	<u>\$ 10,671</u>	<u>\$ 11,144</u>	<u>\$ 10,553</u>

**DISCOVERY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Reconciliation of Net Income Available to Discovery, Inc. to Adjusted OIBDA**

	Year Ended December 31,		
	2020	2019	2018
Net income available to Discovery, Inc.	\$ 1,219	\$ 2,069	\$ 594
Net income attributable to redeemable noncontrolling interests	12	16	20
Net income attributable to noncontrolling interests	124	128	67
Income tax expense	373	81	341
Income before income taxes	1,728	2,294	1,022
Other (income) expense, net	(42)	8	120
Loss from equity investees, net	105	2	63
Loss on extinguishment of debt	76	28	—
Interest expense, net	648	677	729
Operating income	2,515	3,009	1,934
Depreciation and amortization	1,359	1,347	1,398
Impairment of goodwill and other intangible assets	124	155	—
Employee share-based compensation	99	137	80
Restructuring and other charges	91	26	750
Transaction and integration costs	6	26	110
Loss (gain) on disposition	2	—	(84)
Settlement of a withholding tax claim	—	(29)	—
Adjusted OIBDA	<u>\$ 4,196</u>	<u>\$ 4,671</u>	<u>\$ 4,188</u>

**Adjusted OIBDA**

	Year Ended December 31,		
	2020	2019	2018
U.S. Networks	\$ 3,975	\$ 4,117	\$ 3,500
International Networks	723	1,057	1,077
Corporate, inter-segment eliminations, and other	(502)	(503)	(389)
Adjusted OIBDA	<u>\$ 4,196</u>	<u>\$ 4,671</u>	<u>\$ 4,188</u>

**Content Amortization and Impairment Expense**

	Year Ended December 31,		
	2020	2019	2018
U.S. Networks	\$ 1,647	\$ 1,548	\$ 1,702
International Networks	1,307	1,303	1,584
Corporate, inter-segment eliminations, and other	2	2	2
Total content amortization and impairment expense	<u>\$ 2,956</u>	<u>\$ 2,853</u>	<u>\$ 3,288</u>

Content expense is generally a component of costs of revenue on the consolidated statements of operations (see Note 6). No content impairments were recorded as a component of restructuring and other charges during the years ended December 31, 2020 and December 31, 2019. Content impairments of \$405 million for the year ended December 31, 2018 were due to the strategic programming changes following the acquisition of Scripps Networks and are reflected in restructuring and other charges as further described in Note 17.

**DISCOVERY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Revenues by Geography**

	Year Ended December 31,		
	2020	2019	2018
U.S.	\$ 7,025	\$ 7,152	\$ 6,415
Non-U.S.	3,646	3,992	4,138
Total revenues	<u>\$ 10,671</u>	<u>\$ 11,144</u>	<u>\$ 10,553</u>

Distribution and advertising revenues are attributed to each country based on viewer location. Other revenues are attributed to each country based on customer location.

**Property and Equipment by Geography**

	December 31,	
	2020	2019
U.S.	\$ 645	\$ 432
Poland	180	184
U.K.	149	157
Other non-U.S.	232	178
Total property and equipment, net	<u>\$ 1,206</u>	<u>\$ 951</u>

**ITEM 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.**

None.

**ITEM 9A. Controls and Procedures.**

**Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2020. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act of 1934, as amended (the “Exchange Act”), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of December 31, 2020, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective.

**Management’s Annual Report on Internal Control Over Financial Reporting**

Management’s report on internal control over financial reporting is set forth in Item 8 of this Annual Report on Form 10-K under the caption “Management’s Report on Internal Control over Financial Reporting,” which is incorporated herein by reference.

**Report of the Independent Registered Public Accounting Firm**

The report of our independent registered public accounting firm regarding internal control over financial reporting is set forth in Item 8 of this Annual Report on Form 10-K under the caption “Report of Independent Registered Public Accounting Firm,” which is incorporated herein by reference.

**Changes in Internal Control Over Financial Reporting**

During the three months ended December 31, 2020, there were no changes in our internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f), that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**ITEM 9B. Other Information.**

None.

**PART III**

Certain information required in Item 10 through Item 14 of Part III of this Annual Report on Form 10-K is incorporated herein by reference to our definitive Proxy Statement for our 2021 Annual Meeting of Stockholders (“2021 Proxy Statement”), which shall be filed with the SEC pursuant to Regulation 14A of the Exchange Act within 120 days of our fiscal year end.

**ITEM 10. Directors, Executive Officers and Corporate Governance.**

Information regarding our directors, compliance with Section 16(a) of the Exchange Act, and our Audit Committee, including committee members and its financial expert, will be set forth in our 2021 Proxy Statement under the captions “Proposal One: Election of Directors,” “Delinquent Section 16(a) Reports,” if applicable, and “Corporate Governance – Board Meetings and Committees – Audit Committee,” respectively, which are incorporated herein by reference.

Information regarding our executive officers is set forth in Part I of this Annual Report on Form 10-K under the caption “Executive Officers of Discovery, Inc.” as permitted by General Instruction G(3) to Form 10-K.

We have adopted a Code of Ethics (the “Code”) that is applicable to all of our directors, officers and employees. Our Board of Directors approved an updated Code in January 2019 and reviews it regularly. A copy of the Code and any amendments or waivers that would be required to be disclosed under applicable SEC rules are available free of charge at the investor relations section of our website, <https://corporate.discovery.com>. In addition, we will provide a printed copy of the Code, free of charge, upon written request to: Investor Relations, Discovery, Inc., 8403 Colesville Road, Silver Spring, MD 20910.

**ITEM 11. Executive Compensation.**

Information regarding executive compensation will be set forth in our 2021 Proxy Statement under the captions “Executive Compensation – Compensation Discussion and Analysis” and “Executive Compensation – Executive Compensation Tables,” which are incorporated herein by reference.

Information regarding compensation policies and practices as they relate to our risk management, director compensation, and compensation committee interlocks and insider participation will be set forth in our 2021 Proxy Statement under the captions “Executive Compensation – Compensation Discussion and Analysis – Other Compensation Related Matters – Risk Considerations in our Compensation Programs,” “Corporate Governance – Director Compensation,” and “Corporate Governance – Board Meetings and Committees – Compensation Committee,” respectively, which are incorporated herein by reference.

Information regarding the compensation committee report will be set forth in our 2021 Proxy Statement under the caption “Executive Compensation – Compensation Committee Report” which is incorporated herein by reference.

**ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

Information regarding securities authorized for issuance under equity compensation plans will be set forth in our 2021 Proxy Statement under the caption “Securities Authorized for Issuance Under Equity Compensation Plans,” which is incorporated herein by reference.

Information regarding security ownership of certain beneficial owners and management will be set forth in our 2021 Proxy Statement under the captions “Security Ownership Information of Certain Beneficial Owners and Management – Security Ownership of Certain Beneficial Owners” and “Security Ownership Information of Certain Beneficial Owners and Management – Security Ownership of Management,” which are incorporated herein by reference.

**ITEM 13. Certain Relationships and Related Transactions, and Director Independence.**

Information regarding certain relationships and related transactions, and director independence will be set forth in our 2021 Proxy Statement under the captions “Corporate Governance – Transactions with Related Persons” and “Corporate Governance – Director Independence,” respectively, which are incorporated herein by reference.

**ITEM 14. Principal Accountant Fees and Services.**

Information regarding principal accountant fees and services will be set forth in our 2021 Proxy Statement under the captions “Audit Matters – Audit Firm Fees and Services” and “Audit Matters – Audit Committee Pre-Approval Policy,” which are incorporated herein by reference.

**PART IV**

**ITEM 15. Exhibits and Financial Statement Schedules.**

(a) The following documents are filed as part of this Annual Report on Form 10-K:

(1) The following consolidated financial statements of Discovery, Inc. are filed as part of Item 8 of this Annual Report on Form 10-K:

	Page
<a href="#">Consolidated Balance Sheets.</a>	<a href="#">64</a>
<a href="#">Consolidated Statements of Operations.</a>	<a href="#">65</a>
<a href="#">Consolidated Statements of Comprehensive Income (Loss).</a>	<a href="#">66</a>
<a href="#">Consolidated Statements of Cash Flows.</a>	<a href="#">67</a>
<a href="#">Consolidated Statements of Equity.</a>	<a href="#">68</a>
<a href="#">Notes to Consolidated Financial Statements</a>	<a href="#">69</a>

(2) Financial Statement Schedule

Schedule II: Valuation and Qualifying Accounts

Changes in valuation and qualifying accounts consisted of the following (in millions):

	Beginning of Year	Additions	Other <sup>(a)</sup>	Write-offs	End of Year
<b>2020</b>					
Allowance for credit losses	\$ 54	30	(2)	(23)	\$ 59
Deferred tax valuation allowance	\$ 307	51	—	(101)	\$ 257
<b>2019</b>					
Allowance for credit losses	\$ 46	15	—	(7)	\$ 54
Deferred tax valuation allowance	\$ 336	37	—	(66)	\$ 307
<b>2018</b>					
Allowance for credit losses	\$ 55	6	—	(15)	\$ 46
Deferred tax valuation allowance <sup>(b)</sup>	\$ 105	283	—	(52)	\$ 336

<sup>(a)</sup> Amount relates to the impact of the adjustment recorded for adoption of ASU 2016-13.

<sup>(b)</sup> Additions to the valuation allowance for deferred tax assets of \$195 million relate to balances acquired through acquisitions in 2018, with the remainder charged to income tax expense.

All other financial statement schedules required to be filed pursuant to Item 8 and Item 15(c) of Form 10-K have been omitted as the required information is not applicable, not material, or is set forth in the consolidated financial statements or notes thereto.

(3) The following exhibits are filed or furnished as part of this Annual Report on Form 10-K pursuant to Item 601 of SEC Regulation S-K and Item 15(b) of Form 10-K:

## EXHIBITS INDEX

<b>Exhibit No.</b>	<b>Description</b>
2.1	<a href="#"><u>Agreement and Plan of Merger, dated as of July 30, 2017, among Discovery Communications, Inc., Skylight Merger Sub, Inc. and Scripps Networks Interactive, Inc. (incorporated by reference to Exhibit 2.1 to the Form 8-K filed on July 31, 2017 (SEC File No. 001-34177))</u></a>
3.1	<a href="#"><u>Restated Certificate of Incorporation (filed herewith)</u></a>
3.2	<a href="#"><u>Amendment to the Certificate of Incorporation, dated as of March 6, 2018 (incorporated by reference to Exhibit 3.1 to the Form 8-K filed on March 6, 2018 (SEC File No. 001-34177))</u></a>
3.3	<a href="#"><u>Amended and Restated Bylaws of Discovery, Inc., effective as of November 10, 2020 (incorporated by reference to Exhibit 3.1 to the Form 8-K filed on November 13, 2020 (SEC File No. 001-34177))</u></a>
3.4	<a href="#"><u>Certificate of Designation of Series A-1 Convertible Participating Preferred Stock, par value \$0.01 per share (incorporated by reference to Exhibit 3.1 to the Form 8-K filed on August 7, 2017 (SEC File No. 001-34177))</u></a>
3.5	<a href="#"><u>Certificate of Designation of Series C-1 Convertible Participating Preferred Stock, par value \$0.01 per share (incorporated by reference to Exhibit 3.2 to the Form 8-K filed on August 7, 2017 (SEC File No. 001-34177))</u></a>
4.1	<a href="#"><u>Specimen certificate for shares of the Registrant's Series A common stock, par value \$.01 per share (incorporated by reference to Exhibit 4.1 to the Registration Statement on Form S-4, SEC File No. 333-151586 (the "Registration Statement"))</u></a>
4.2	<a href="#"><u>Specimen certificate for shares of the Registrant's Series B common stock, par value \$.01 per share (incorporated by reference to Exhibit 4.2 to the Registration Statement (SEC File No. 333-151586))</u></a>
4.3	<a href="#"><u>Specimen certificate for shares of the Registrant's Series C common stock, par value \$.01 per share (incorporated by reference to Exhibit 4.3 to the Registration Statement (SEC File No. 333-151586))</u></a>
4.4	<a href="#"><u>Form of Registration Rights Agreement, by and between Discovery Communications, Inc. and Advance/Newhouse content Partnership (incorporated by reference to Exhibit 4.4 to the Registration Statement (SEC 333-151586))</u></a>
4.5	<a href="#"><u>Amendment No. 1 to Registration Rights Agreement, dated as of August 7, 2017, by and between Discovery Communications, Inc. and Advance/Newhouse Programming Partnership (incorporated by reference to Exhibit 10.6 to the Form 10-O filed on November 2, 2017 (SEC File No. 001-34177))</u></a>
4.6	<a href="#"><u>Registration Rights Agreement, dated as of April 3, 2018, by and between Discovery Communications, LLC, Discovery, Inc. and Goldman Sachs &amp; Co. LLC (incorporated by reference to Exhibit 4.2 to the Form 8-K filed April 4, 2018 (SEC File No. 001-34177))</u></a>
4.7	<a href="#"><u>Form of Rights Agreement, by and between Discovery Communications, Inc. and Computershare Trust Company, N.A., as rights agent (incorporated by reference to Exhibit 4.5 to the Registration Statement (SEC File No. 333-151586))</u></a>
4.8	<a href="#"><u>Amendment No. 1 to Rights Agreement between Discovery Communications, Inc. and Computershare Trust Company, N.A. dated December 10, 2008 (incorporated by reference to Exhibit 4.1 to the Form 8-K filed on December 11, 2008 (SEC File No. 001-34177))</u></a>

**EXHIBITS INDEX**

<b>Exhibit No.</b>	<b>Description</b>
4.9	<a href="#"><u>Amendment No. 2 to Rights Agreement, dated as of July 30, 2017, by and between Discovery Communications, Inc. and Computershare Trust Company N.A., as Rights Agent (incorporated by reference to Exhibit 4.1 to the Form 8-K filed on July 31, 2017 (SEC File No. 001-34177))</u></a>
4.10	<a href="#"><u>Indenture dated as of August 19, 2009 among Discovery Communications, LLC, Discovery Communications, Inc. and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.1 to the Form 8-K filed on August 19, 2009 (SEC File No. 001-34177))</u></a>
4.11	<a href="#"><u>Second Supplemental Indenture dated as of June 3, 2010, among Discovery Communications LLC, Discovery Communications, Inc. and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.1 to the Form 8-K filed on June 3, 2010 (SEC File No. 001-34177))</u></a>
4.12	<a href="#"><u>Third Supplemental Indenture, dated as of June 20, 2011, among Discovery Communications, LLC, Discovery Communications, Inc. and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.1 to the Form 8-K filed on June 21, 2011 (SEC File No. 001-34177))</u></a>
4.13	<a href="#"><u>Fourth Supplemental Indenture, dated as of May 17, 2012, among Discovery Communications, LLC, Discovery Communications, Inc. and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.1 to the Form 8-K filed on May 17, 2012 (SEC File No. 001-34177))</u></a>
4.14	<a href="#"><u>Fifth Supplemental Indenture, dated as of March 19, 2013, among Discovery Communications, LLC, Discovery Communications, Inc. and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.1 to the Form 8-K filed on March 19, 2013 (SEC File No. 001-34177))</u></a>
4.15	<a href="#"><u>Sixth Supplemental Indenture, dated as of March 7, 2014, among Discovery Communications, LLC, Discovery Communications, Inc., U.S. Bank National Association, as trustee and Evalon Financial Services Limited, UK Branch, as London Paying Agent (incorporated by reference to Exhibit 4.1 to the Form 8-K/A filed on March 7, 2014 (SEC File No. 001-34177))</u></a>
4.16	<a href="#"><u>Seventh Supplemental Indenture, dated March 2, 2015, among Discovery Communications, LLC, Discovery Communications, Inc. and U.S. Bank National Association, as Trustee (incorporated by reference to Exhibit 4.1 to the Form 8-K filed on March 2, 2015 (SEC File No. 001-34177))</u></a>
4.17	<a href="#"><u>Eighth Supplemental Indenture, dated March 19, 2015, among Discovery Communications, LLC, Discovery Communications, Inc., U.S. Bank National Association, as Trustee, and Elavon Financial Services Limited, UK Branch, as London Paying Agent (incorporated by reference to Exhibit 4.1 to the Form 8-K filed on March 19, 2015 (SEC File No. 001-34177))</u></a>
4.18	<a href="#"><u>Ninth Supplemental Indenture, dated March 11, 2016, among Discovery Communications, LLC, Discovery Communications, Inc. and U.S. Bank National Association, as Trustee (incorporated by reference to Exhibit 4.1 to the Form 8-K filed on March 11, 2016 (SEC File No. 001-34177))</u></a>
4.19	<a href="#"><u>Tenth Supplemental Indenture, dated as of March 13, 2017, among Discovery Communications, LLC, Discovery Communications, Inc. and U.S. Bank National Association, as Trustee (incorporated by reference to Exhibit 4.1 to the Form 8-K filed on March 13, 2017 (SEC File No. 001-34177))</u></a>
4.20	<a href="#"><u>Eleventh Supplemental Indenture, dated as of September 21, 2017, among Discovery Communications, LLC, Discovery Communications, Inc. and U.S. Bank National Association, as Trustee (incorporated by reference to Exhibit 4.1 to the Form 8-K filed on September 21, 2017 (SEC File No. 001-34177))</u></a>

## EXHIBITS INDEX

<b>Exhibit No.</b>	<b>Description</b>
4.21	<a href="#"><u>Thirteenth Supplemental Indenture, dated as of September 21, 2017, among Discovery Communications, LLC, Discovery Communications, Inc., Elavon Financial Service DAC, UK Branch, as London Paving Agent, and U.S. Bank National Association, as Trustee (incorporated by reference to Exhibit 4.3 to the Form 8-K filed on September 21, 2017 (SEC File No. 001-34177))</u></a>
4.22	<a href="#"><u>Fourteenth Supplemental Indenture, dated as of April 2, 2018, among Discovery Communications, LLC, Discovery, Inc., Scripps Networks Interactive, Inc. and U.S. Bank National Association, as Trustee (incorporated by reference to Exhibit 4.3 to the Form 8-K filed on April 4, 2018 (SEC File No. 001-34177))</u></a>
4.23	<a href="#"><u>Fifteenth Supplemental Indenture, dated as of April 3, 2018, among Discovery Communications, LLC, Discovery, Inc., Scripps Networks Interactive, Inc. and U.S. Bank National Association, as Trustee (incorporated by reference to Exhibit 4.1 to the Form 8-K filed on April 4, 2018 (SEC File No. 001-34177))</u></a>
4.24	<a href="#"><u>Sixteenth Supplemental Indenture, dated as of June 29, 2018, among Discovery Communications, LLC, Discovery, Inc., Scripps Networks Interactive, Inc. and U.S. Bank National Association, as Trustee (incorporated by reference to Exhibit 4.1 to the Form 10-Q filed November 9, 2018 (SEC File No. 001-34177))</u></a>
4.25	<a href="#"><u>Seventeenth Supplemental Indenture, dated as of May 21, 2019, among Discovery Communications, LLC, Discovery, Inc., Scripps Networks Interactive, Inc. and U.S. Bank National Association, as Trustee (incorporated by reference to Exhibit 4.1 to the Form 8-K filed on May 21, 2019 (SEC File No. 001-34177))</u></a>
4.26	<a href="#"><u>Eighteenth Supplemental Indenture, dated as of May 18, 2020, among Discovery Communications, LLC, Discovery, Inc., Scripps Networks Interactive, Inc. and U.S. Bank National Association, as Trustee (incorporated by reference to Exhibit 4.1 to the Form 8-K filed on May 18, 2020 (SEC File No. 001-34177))</u></a>
4.27	<a href="#"><u>Nineteenth Supplemental Indenture, dated as of September 21, 2020, among Discovery Communications, LLC, Discovery, Inc., Scripps Networks Interactive, Inc. and U.S. Bank National Association, as Trustee (incorporated by reference to Exhibit 4.1 to the Form 8-K filed on September 21, 2020 (SEC File No. 001-34177))</u></a>
4.28	<a href="#"><u>Amended and Restated Credit Agreement, dated February 4, 2016, among Discovery Communications, LLC ("DCL"), certain wholly-owned subsidiaries of DCL, Discovery Communications, Inc., as Facility Guarantor, the lenders from time to time party thereto, and Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Lender (incorporated by reference to Exhibit 4.1 to the Form 8-K filed on February 5, 2016 (SEC File No. 001-34177))</u></a>
4.29	<a href="#"><u>Amendment No. 1 to Amended and Restated Credit Agreement, dated as of August 11, 2017, among Discovery Communications, LLC ("DCL"), certain wholly-owned subsidiaries of DCL, Discovery Communications, Inc., as Facility Guarantor, the lenders from time to time party thereto, and Bank of America, N.A., as Administrative Agent (incorporated by reference to Exhibit 4.2 to the Form 10-Q filed on November 2, 2017 (SEC File No. 001-34177))</u></a>
4.30	<a href="#"><u>Amendment No. 2 to Amended and Restated Credit Agreement, dated as of April 30, 2020, among Discovery Communications, LLC ("DCL"), certain wholly-owned subsidiaries of DCL, Discovery Communications, Inc., as Facility Guarantor, the lenders from time to time party thereto, and Bank of America, N.A., as Administrative Agent (incorporated by reference to Exhibit 4.1 to the Form 8-K filed on May 6, 2020 (SEC File No. 001-34177))</u></a>

## EXHIBITS INDEX

Exhibit No.	Description
4.31	<a href="#">Term Loan Credit Agreement, dated as of August 11, 2017, among Discovery Communications, LLC, as the Company, Discovery Communications, Inc., as Facility Guarantor, the lenders from time to time party thereto, Goldman Sachs Bank USA, as Administrative Agent (incorporated by reference to Exhibit 4.3 to the Form 10-Q filed on November 2, 2017 (SEC File No. 001-34177))</a>
4.32	<a href="#">Description of Discovery Inc.'s securities registered pursuant to Section 12 of the Securities Exchange Act of 1934 (incorporated by reference to Exhibit 4.31 to the Form 10-K filed on February 27, 2020 (SEC File No. 001-34177))</a>
4.33	<a href="#">Registration Rights Agreement, dated as of September 21, 2020, among Discovery Communications, LLC, Scripps Networks Interactive, Inc., Discovery, Inc., Deutsche Bank Securities Inc., RBC Capital Markets, LLC, Barclays Capital Inc., BNP Paribas Securities Corp., J.P. Morgan Securities LLC and Mizuho Securities USA LLC (incorporated by reference to Exhibit 4.2 to the Form 8-K filed on September 21, 2020 (SEC File No.001-34177))</a>
10.1	<a href="#">Discovery, Communications Domestic Relocation Benefits Transformation Relocation Policy Tier 1 Executive Bands 0-3, effective January 1, 2018 (filed herewith)*</a>
10.2	<a href="#">Discovery Communications International Relocation Benefits, International Relocation, effective June 1, 2017 (incorporated by reference to Exhibit 10.3 to the Form 10-K filed on February 28, 2018 (SEC File No. 001-34177))*</a>
10.3	<a href="#">Discovery Communications International Relocation Benefits, Long-Term Assignment, effective June 1, 2017 (filed herewith)*</a>
10.4	<a href="#">Discovery, Inc. Executive Benefit Summary (filed herewith)*</a>
10.5	<a href="#">2020 Incentive Compensation Plan (filed herewith)*</a>
10.6	<a href="#">Discovery Communications, LLC Supplement Deferred Compensation Plan, amended and restated as of January 1, 2021 (filed herewith))*</a>
10.7	<a href="#">2011 Employee Stock Purchase Plan (incorporated by reference to Exhibit 99.1 to the Form 8-K filed on May 19, 2011 (SEC File No. 001-34177))*</a>
10.8	<a href="#">Discovery Communications, Inc. 2013 Incentive Plan (incorporated by reference to Exhibit 10.1 to the Form 8-K filed on May 16, 2013 (SEC File No. 001-34177))*</a>
10.9	<a href="#">Discovery Communications, Inc. 2013 Incentive Plan (As Amended and Restated Effective May 10, 2018) (incorporated by reference to Exhibit 10.1 to the Form 8-K/A filed on May 16, 2018 (SEC File No. 001-34177))*</a>
10.10	<a href="#">Discovery Communications, Inc. 2005 Non-Employee Director Incentive Plan (As Amended and Restated Effective May 20, 2015) (incorporated by reference to Exhibit 10.1 to the Form 8-K filed on May 22, 2015 (SEC File No. 001-34177))*</a>
10.11	<a href="#">Form of Special Stock Appreciation Right Award Agreement (incorporated by reference to Exhibit 10.1 to the Form 8-K filed on January 3, 2014 (SEC File No. 001-34177))*</a>
10.12	<a href="#">Form of Stock Dividend Related Nonqualified Stock Option Grant Agreement (incorporated by reference to Exhibit 10.5 to the Form 10-Q filed on July 31, 2014 (SEC File No. 001-34177))*</a>

## EXHIBITS INDEX

<b>Exhibit No.</b>	<b>Description</b>
10.13	<a href="#"><u>Form of David Zaslav Stock Option Agreement (incorporated by reference to Exhibit 10.1 to the Form 8-K filed on July 18, 2018 (SEC File No. 001-34177))*</u></a>
10.14	<a href="#"><u>Employment Agreement between Discovery Communications, Inc. and David Zaslav dated January 2, 2014 (incorporated by reference to Exhibit 10.44 to the Form 10-K filed on February 20, 2014 (SEC File No. 001-34177))*</u></a>
10.15	<a href="#"><u>Amended and Restated Employment Agreement, dated July 16, 2018, between David Zaslav and Discovery, Inc. (incorporated by reference to Exhibit 10.2 to the Form 8-K filed on July 18, 2018 (SEC File No. 001-34177))</u></a>
10.16	<a href="#"><u>Employment Agreement, dated as of August 8, 2014, between Bruce Campbell and Discovery Communications, LLC (incorporated by reference to Exhibit 10.2 to the Form 10-O filed on November 4, 2014 (SEC File No. 001-34177))*</u></a>
10.17	<a href="#"><u>Amendment to Employment Agreement, dated September 24, 2015, between Bruce Campbell and Discovery Communications, LLC (incorporated by reference to Exhibit 10.1 to the Form 10-O filed on November 3, 2015 (SEC File No. 001-34177))*</u></a>
10.18	<a href="#"><u>Second Amendment to Employment Agreement, dated as of February 9, 2018, between Bruce Campbell and Discovery Communications, LLC (Incorporated by reference to Exhibit 10.1 to the Form 10-O Filed on May 10, 2018 (SEC File No. 001-34177))*</u></a>
10.19	<a href="#"><u>Employment Agreement dated as of July 27, 2018 between Peter Faricy and Discovery Communications, LLC (incorporated by reference to Exhibit 10.51 to the Form 10-K filed on March 1, 2019 (SEC File No. 001-34177))*</u></a>
10.20	<a href="#"><u>Employment Agreement, dated as of October 3, 2016, between Dr. Gunnar Wiedenfels and Discovery Communications, LLC (incorporated by reference to Exhibit 10.2 to the Form 10-O filed on November 1, 2016 (SEC File No. 001-34177))*</u></a>
10.21	<a href="#"><u>First Amendment to Employment Agreement, dated September 22, 2020, between Dr. Gunnar Wiedenfels and Discovery First Amendment to Employment Agreement, dated September 22, 2020, between Dr. Gunnar Wiedenfels and Discovery Communications, LLC, a wholly owned subsidiary of Discovery, Inc. (incorporated by reference to Exhibit 10.1 to the Form 8-K filed on September 25, 2020 (SEC File No. 001-34177))*</u></a>
10.22	<a href="#"><u>Employment Agreement, dated January 14, 2014, between Jean-Briac Perrette and Discovery Communications, LLC (incorporated by reference to Exhibit 10.54 to the Form 10-K filed on February 19, 2015 (SEC File No. 001-34177))*</u></a>
10.23	<a href="#"><u>Amendment to Employment Agreement, dated February 1, 2019, between Jean-Briac Perrette and Discovery Corporate Services Limited, a wholly owned subsidiary of Discovery, Inc. (incorporated by reference to Exhibit 10.1 to the Form 10-O filed on May 2, 2019 (SEC File No. 001-34177))*</u></a>
10.24	<a href="#"><u>Employment Agreement dated June 27, 2019, between David Leavy and Discovery Communications, LLC (filed herewith)*</u></a>
10.25	<a href="#"><u>Form of Discovery, Inc. Non-Qualified Stock Option Grant Agreement for Employees (incorporated by reference to Exhibit 10.31 to the Form 10-K filed on February 27, 2020 (SEC File No. 001-34177))*</u></a>

## EXHIBITS INDEX

Exhibit No.	Description
10.26	<a href="#"><u>Form of Discovery, Inc. Restricted Stock Unit Agreement for Employees (incorporated by reference to Exhibit 10.32 to the Form 10-K filed on February 27, 2020 (SEC File No. 001-34177))*</u></a>
10.27	<a href="#"><u>Form of Discovery, Inc. Performance Restricted Stock Unit Agreement for Employees (incorporated by reference to Exhibit 10.33 to the Form 10-K filed on February 27, 2020 (SEC File No. 001-34177))*</u></a>
21	<a href="#"><u>List of Subsidiaries of Discovery, Inc. (filed herewith)</u></a>
22	<a href="#"><u>Table of Senior Notes, Issuers and Guarantors (filed herewith)</u></a>
23	<a href="#"><u>Consent of Independent Registered Public Accounting Firm (filed herewith)</u></a>
31.1	<a href="#"><u>Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as Amended, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)</u></a>
31.2	<a href="#"><u>Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as Amended, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)</u></a>
32.1	<a href="#"><u>Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)</u></a>
32.2	<a href="#"><u>Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)</u></a>
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document (filed herewith)†
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document (filed herewith)†
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document (filed herewith)†
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document (filed herewith)†
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document (filed herewith)†
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

\* Indicates management contract or compensatory plan, contract or arrangement.

†Attached as Exhibit 101 to this Annual Report on Form 10-K are the following formatted in Inline XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets as of December 31, 2020 and December 31, 2019, (ii) Consolidated Statements of Operations for the Years Ended December 31, 2020, 2019, and 2018, (iii) Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2020, 2019, and 2018, (iv) Consolidated Statements of Cash Flows for the Years Ended December 31, 2020, 2019, and 2018, (v) Consolidated Statements of Equity for the Years Ended December 31, 2020, 2019, and 2018, and (vi) Notes to Consolidated Financial Statements.

**ITEM 16. Form 10-K Summary**

Not Applicable.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**DISCOVERY, INC.**  
(Registrant)

Date: February 22, 2021

By: /s/ David M. Zaslav  
David M. Zaslav  
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

<b>Signature</b>	<b>Title</b>	<b>Date</b>
<u>/s/ David M. Zaslav</u> David M. Zaslav	President and Chief Executive Officer, and Director (Principal Executive Officer)	February 22, 2021
<u>/s/ Gunnar Wiedenfels</u> Gunnar Wiedenfels	Senior Executive Vice President and Chief Financial Officer (Principal Financial Officer)	February 22, 2021
<u>/s/ Lori C. Locke</u> Lori C. Locke	Executive Vice President and Chief Accounting Officer (Principal Accounting Officer)	February 22, 2021
<u>/s/ Robert R. Beck</u> Robert R. Beck	Director	February 22, 2021
<u>/s/ Robert R. Bennett</u> Robert R. Bennett	Director	February 22, 2021
<u>/s/ Paul A. Gould</u> Paul A. Gould	Director	February 22, 2021
<u>/s/ Robert L. Johnson</u> Robert L. Johnson	Director	February 22, 2021
<u>/s/ Kenneth W. Lowe</u> Kenneth W. Lowe	Director	February 22, 2021
<u>/s/ John C. Malone</u> John C. Malone	Director	February 22, 2021
<u>/s/ Robert J. Miron</u> Robert J. Miron	Director	February 22, 2021
<u>/s/ Steven A. Miron</u> Steven A. Miron	Director	February 22, 2021
<u>/s/ Daniel E. Sanchez</u> Daniel E. Sanchez	Director	February 22, 2021
<u>/s/ Susan M. Swain</u> Susan M. Swain	Director	February 22, 2021
<u>/s/ J. David Wargo</u> J. David Wargo	Director	February 22, 2021

**RESTATED CERTIFICATE OF INCORPORATION**

**OF**

**DISCOVERY COMMUNICATIONS, INC.**

**DISCOVERY COMMUNICATIONS, INC., a corporation organized and existing under the laws of the State of Delaware, hereby certifies as follows:**

**(1) The name of the Corporation is Discovery Communications, Inc. The original Certificate of Incorporation of the Corporation was filed on April 28, 2008.**

**(2) This Restated Certificate of Incorporation amends and restates the Certificate of Incorporation of the Corporation.**

**(3) This Restated Certificate of Incorporation has been duly adopted in accordance with Sections 242 and 245 of the General Corporation Law of the State of Delaware.**

**(4) This Restated Certificate of Incorporation shall become effective upon its filing with the Secretary of State of the State of Delaware.**

**(5) Pursuant to Sections 242 and 245 of the General Corporation Law of the State of Delaware, the text of the Certificate of Incorporation is hereby amended and restated to read in its entirety as follows:**

**ARTICLE I**

**NAME**

The name of the corporation is Discovery Communications, Inc. (the "Corporation").

**ARTICLE II**

**REGISTERED OFFICE**

The address of the registered office of the Corporation in the State of Delaware is 2711 Centerville Road, Suite 400, in the City of Wilmington, County of New Castle, 19808. The name of its registered agent at such address is the Corporation Service Company.



### ARTICLE III

#### PURPOSE

The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of Delaware (as the same may be amended from time to time, "DGCL").

### ARTICLE IV

#### AUTHORIZED STOCK

The total number of shares of capital stock which the Corporation shall have authority to issue is four billion (4,000,000,000) shares, of which three billion eight hundred million (3,800,000,000) shares shall be of a class designated as Common Stock, par value \$0.01 per share ("Common Stock"), such class to be issuable in series as follows:

- a. One billion seven hundred million (1,700,000,000) shares of Common Stock shall be of a series designated as "Series A Common Stock" (the "Series A Common Stock");
- b. One hundred million (100,000,000) shares of Common Stock shall be of a series designated as "Series B Common Stock" (the "Series B Common Stock");
- c. Two billion (2,000,000,000) shares of Common Stock shall be of a series designated as "Series C Common Stock" (the "Series C Common Stock");

and two hundred million (200,000,000) shares shall be of a class designated as Preferred Stock, par value \$0.01 per share ("Preferred Stock"), such class to be issuable in series as follows:

- d. Seventy five million (75,000,000) shares of Preferred Stock shall be of a series designated as "Series A Convertible Participating Preferred Stock" (the "Series A Preferred Stock");
- e. Seventy five million (75,000,000) shares of Preferred Stock shall be of a series designated as "Series C Convertible Participating Preferred Stock" (the "Series C Preferred Stock") and, together with the Series A Preferred Stock, the "Convertible Preferred Stock"; and
- f. Fifty million (50,000,000) shares of Preferred Stock which are undesignated as to series and are issuable in accordance with the provisions of Article IV, Section D (the "Series Preferred Stock").

Other than shares issued in connection with (x) the Merger (as defined in the Merger Agreement), (y) the exercise of any stock options or stock appreciation rights of the Corporation outstanding immediately following the effectiveness of the Merger, or (z) a Share Distribution in

---

accordance with Article IV, Section B.4(a) below (such issuance pursuant to clause (x), (y) or (z) above, a "Permitted Series B Share Issuance"), so long as any shares of Series B Common Stock are issued and outstanding, the Corporation shall not issue, or enter into any agreement to issue, any shares of Series B Common Stock without the prior consent of the holders of at least 75% of the outstanding shares of Series B Common Stock, voting as a separate class (such consent of the holders of Series B Common Stock, a "Series B Consent"). The Series B Consent may be obtained at a meeting of stockholders of the Corporation or by written consent pursuant to Article VI, Section B of this Restated Certificate of Incorporation (as it may from time to time hereafter be amended or restated, the "Restated Certificate").

The description of the Common Stock and the Preferred Stock of the Corporation, and the relative rights, preferences and limitations thereof, or the method of fixing and establishing the same, are as hereinafter set forth in this Article IV.

## SECTION A

### CERTAIN DEFINITIONS AND INTERPRETATIONS

Unless the context otherwise requires, the terms defined below shall have, for all purposes of this Restated Certificate, the meanings herein specified:

"Affiliate" means, with respect to any Person, any other Person that directly or indirectly through one or more intermediaries Controls, is Controlled by, or is under common Control with such Person.

"ANPP" means Advance/Newhouse Programming Partnership, a New York general partnership.

"ANPP Permitted Transferee" means a Person that acquires record and Beneficial Ownership of shares of Series A Preferred Stock from a member of the ANPP Stockholder Group or an ANPP Permitted Transferee, in each case, in a Permitted Transfer.

"ANPP Stockholder Group" means Advance Publications, Inc., Newhouse Broadcasting Corporation and, as of the date of determination, any direct or indirect Subsidiary of Advance Publications, Inc. or Newhouse Broadcasting Corporation.

"Annual Business Plan" means for any fiscal year of the Corporation, a comprehensive statement of the objectives and projections of the Corporation (including its Subsidiaries) with respect to the operations of its business, including objectives and projections concerning capital expenditures, cable television programming developments, license fees, subscriber discounts, revenues and expenses.

"Base Amount" means the sum of (x) the number of shares of Series A Preferred Stock issued to the members of the ANPP Stockholder Group as of the Issue Date (other than any such shares of Series A Preferred Stock that are Escrow Shares as of the Issue Date) and (y) as of the date of determination, the number of Released Series A Shares.

---

“Beneficial Ownership” or “Beneficially Own” has the meaning given to such term in Rule 13d-3 under the Securities Exchange Act of 1934, as amended; provided, however, that for purposes of determining Beneficial Ownership, (i) a Person shall be deemed to be the Beneficial Owner of any securities which such Person has the right to acquire (whether such right is exercisable immediately or only after the passage of time or occurrence of conditions) pursuant to any agreement, arrangement or understanding (other than customary agreements with and between underwriters and selling group members with respect to a bona fide public offering of securities) or upon the exercise of conversion rights, exchange rights, warrants, options, rights or otherwise, and (ii) a Person shall not be deemed the Beneficial Owner of, or to Beneficially Own, securities that such Person has a right to acquire upon the exercise of Rights.

“Board of Directors” or “Board” means the Board of Directors of the Corporation and, unless the context indicates otherwise, also means, to the extent permitted by law, any committee thereof authorized, with respect to any particular matter, to exercise the power of the Board of Directors of the Corporation with respect to such matter.

“Business Day” means any day other than a Saturday, Sunday or a day on which banks are required or permitted to close in New York, New York.

“capital stock” means any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents of or interests in corporate stock (however designated).

“Capitalized Lease Obligations” of any Person means any obligations to pay rent or other amounts under a lease of (or other arrangement conveying the right to use) real or personal property, or a combination thereof, which are required to be classified and accounted for as capital leases on a balance sheet of such Person under GAAP and the amount of such obligations at any time will be the capitalized amount thereof at such time determined in accordance with GAAP.

“Cash Flow” means for any Person, for any period, gross operating revenues of such Person and any entities required to be consolidated with such Person on a financial statement in accordance with GAAP (the “Consolidated Group”) for such period derived in the ordinary course of business from continuing operations minus all operating expenses from continuing operations of such Consolidated Group for such period, including, without limitation, technical, programming, selling, advertising, general and administrative expenses and corporate overhead incurred to the extent deducted in calculating operating income by such Consolidated Group during such period and all income taxes paid, but excluding depreciation, amortization, deferred taxes and other non-cash charges and interest expense, all the foregoing otherwise being determined in accordance with GAAP. Interest income, extraordinary items and gains or losses on sales or dispositions of property will be excluded from the calculation of Cash Flow. In the event of a sale, transfer or other disposition of any asset by any member of the Consolidated Group during any period, Cash Flow will be adjusted (x) to give effect to such sale, transfer or other disposition by excluding from Cash Flow the actual cash flow derived from such asset as if such sale, transfer or other disposition occurred on the first day of such period, and (y) by adding to Cash Flow all sale, transfer and other disposition-related operating expenses incurred by such member in connection with the sale, transfer or other disposition of such asset. In the event of an

---

acquisition of any asset by any member of the Consolidated Group during any period, Cash Flow will be adjusted (x) to give effect to such acquisition by including in Cash Flow the actual cash flow derived from such asset as if such acquisition occurred on the first day of such period, and (y) by adding to Cash Flow all acquisition-related operating expenses incurred by such member in connection with the acquisition of such asset.

“Cause” means (1) commission of an act of fraud, misappropriation, embezzlement or similar conduct against the Corporation, (2) conviction of, or plea of guilty or *nolo contendere* to, any crime (whether or not involving the Corporation) constituting a felony, or (3) the willful engaging by the director in misconduct that is materially injurious to the Corporation or its Subsidiaries, monetarily or otherwise; provided that, for purposes of this subclause (3), no action or failure to act on a director’s part shall be considered “willful” unless done, or omitted to be done, by the director in bad faith and without reasonable belief that such action or omission was in the best interests of the Corporation.

“Commission” means the Securities and Exchange Commission, and any successor commission or agency having similar powers.

“Company Rights Plan” means the Rights Agreement, dated as of September 17, 2008, between the Corporation and Computershare Trust Company, N.A., as Rights Agent (and any successor or substitute shareholder rights plan).

“Control” means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by agreement, or otherwise. The terms “Controls”, “Controlled” and “Controlling” will have corresponding meanings.

“Conversion Shares” means the Series A Conversion Shares and shares of Common Stock or other securities of the Corporation issued or issuable upon conversion of the shares of Series C Preferred Stock.

“Convertible Securities” means (x) any securities of the Corporation (other than any series of Common Stock) that are directly or indirectly convertible into or exchangeable for, or that evidence the right to purchase, directly or indirectly, securities of the Corporation or any other Person, whether upon conversion, exercise, exchange, pursuant to anti-dilution provisions of such securities or otherwise, and (y) any securities of any other Person that are directly or indirectly convertible into or exchangeable for, or that evidence the right to purchase, directly or indirectly, securities of such Person or any other Person (including the Corporation), whether upon conversion, exercise, exchange, pursuant to anti-dilution provisions of such securities or otherwise.

“Debt Service” means for any period, the sum of (x) all principal due and payable with respect to any item of Indebtedness during such period and (y) all interest, premium, commitment, and other recurring or nonrecurring charges that are payable and should be accrued in accordance with GAAP with respect to any item of Indebtedness during such period.

---

“Discovery” means Discovery Communications Holding, LLC, a Delaware limited liability company.

“Escrow Shares” means any shares of Series A Preferred Stock or shares of Series C Preferred Stock that, on any date of determination, are held by JPMorgan Chase Bank, N.A., as Escrow Agent, pursuant to the Escrow Agreement, dated as of September 17, 2008 (the “Escrow Agreement”), by and among ANPP, the Corporation and the Escrow Agent.

“GAAP” means generally accepted accounting principles as accepted by the accounting profession in the United States as in effect from time to time.

“Indebtedness” means with respect to any Person, any indebtedness or obligations, direct or indirect, secured or unsecured, contingent or otherwise (whether or not the recourse of the lender is to the whole of the assets of such Person or only to a portion thereof) for borrowed money, and any deposits or advances of any kind held by such Person, and all obligations with respect to which interest charges are customarily paid, and all obligations evidenced by bonds, notes, debentures or similar instruments or representing the balance deferred and unpaid of the purchase price of any property or payment for any services (other than accounts payable to suppliers incurred in the ordinary course of business and paid in the ordinary course of business), if and to the extent any of the foregoing obligations or indebtedness would appear as a liability upon a balance sheet of such Person prepared in accordance with GAAP, and will also include, to the extent not otherwise included (but without duplication), (i) any Capitalized Lease Obligations, (ii) obligations secured by a lien to which the property or assets owned or held by such Person are subject, whether or not the obligation or obligations secured thereby will have been assumed, (iii) any obligations, contingent or otherwise, guaranteeing or having the economic effect of guaranteeing any debt or obligation of any other Person, (iv) the face value of any letters of credit and bankers acceptances less amounts drawn thereunder and for which reimbursement has been made, (v) the amount of any obligations of such Person under conditional sales and title retention agreements and (vi) obligations of any such Person under any interest rate agreement applicable to any of the foregoing.

“Independent Director” means a director who satisfies the independence requirements set forth in the Corporate Governance Rules of NASDAQ (or the rules and regulations of the principal securities exchange on which the Corporation’s equity securities are then listed) in effect from time to time; provided, however, that if, at any particular time, NASDAQ (or the principal securities exchange on which the Corporation’s equity securities are then listed) has not then adopted a definition of “independent director”, “Independent Director” means a director who, as determined in good faith by the Board (other than the “Independent Director” in question), has no relationship to the Corporation that may interfere with the exercise of his or her independence in carrying on his or her duties to the Corporation under the DGCL or any other applicable laws.

“Issue Date” means the date on which shares of Convertible Preferred Stock are first issued.

---

“Junior Stock” means, as the context requires, (i) the Common Stock, (ii) any other class or series of capital stock, whether now existing or hereafter created, of the Corporation, other than (A) the Convertible Preferred Stock, (B) any class or series of Parity Stock (except to the extent provided under clause (iii) hereof) and (C) any Senior Stock, and (iii) any class or series of Parity Stock to the extent that it ranks junior to the Convertible Preferred Stock as to dividend rights, rights of redemption and/or rights on liquidation, as the case may be. For purposes of clause (iii) above, a class or series of Parity Stock shall rank junior to the Convertible Preferred Stock as to dividend rights, rights of redemption and/or rights on liquidation if the holders of shares of Convertible Preferred Stock shall be entitled to dividend payments, payments on redemption or payments of amounts distributable upon dissolution, liquidation or winding up of the Corporation, as the case may be, in preference or priority to the holders of shares of such class or series.

“Liquidation Preference” measured per share of the Convertible Preferred Stock as of the date in question (the “Determination Date”), means an amount equal to \$0.01 (as appropriately adjusted to take into account any stock splits, reverse splits and the like affecting the Convertible Preferred Stock occurring after the Issue Date). In connection with the determination of the Liquidation Preference of a share of Convertible Preferred Stock upon any liquidation, dissolution or winding up of the Corporation, the Determination Date shall be the record date for the distribution of amounts payable to stockholders in connection with any such liquidation, dissolution or winding up.

“Maximum Amount” means a number of shares of Common Stock equal to (i) 7.5% of the sum of (A) the number of shares of Common Stock of the Corporation outstanding (with Conversion Shares (other than Conversion Shares issuable in respect of Escrow Shares) deemed outstanding for this purpose) immediately following the effectiveness of the Merger, (B) the number of Conversion Shares issued or issuable in respect of Released Shares as of the date of determination, and (C) the number of shares of Common Stock issuable upon exercise of the Converted Options (as defined in the Merger Agreement); *plus* (ii) the number of Conversion Shares issuable upon conversion of shares of Convertible Preferred Stock issued to the members of the ANPP Stockholder Group upon the effectiveness of the Merger (other than any such Conversion Shares issuable in respect of Escrow Shares); *plus* (iii) the number of Conversion Shares issued or issuable in respect of Released Shares as of the date of determination; provided, that, in the event any member of the ANPP Stockholder Group or any ANPP Permitted Transferee Transfers shares of Convertible Preferred Stock or Conversion Shares following the effectiveness of the Merger (other than (1) in a Transfer that constitutes a Permitted Transfer or (2) in a Transfer to the Corporation as a result of the retirement or cancellation of any Escrow Shares pursuant to the terms of the Escrow Agreement) then the amount of shares calculated above will be reduced by such number of shares of Conversion Shares issuable upon conversion of shares of Convertible Preferred Stock, or Conversion Shares, so Transferred. Notwithstanding the foregoing, in the event any member of the ANPP Stockholder Group or any of its Affiliates, or any ANPP Permitted Transferee or any of its Affiliates (x) acquires, or enters into any agreement, arrangement or understanding to acquire, Beneficial Ownership of shares of Common Stock following the effectiveness of the Merger, or (y) Transfers or enters into any agreement, arrangement or understanding to Transfer, Beneficial Ownership of shares of Convertible Preferred Stock to any third party, then such acquisition or Transfer, as the case may

---

be, will be deemed, upon the execution or entry of any such agreement, arrangement or understanding or the consummation of any such acquisition or Transfer, to result in the Maximum Amount being exceeded to the extent that after giving effect to such acquisition of Beneficial Ownership of shares of Common Stock or such Transfer of Beneficial Ownership of shares of Convertible Preferred Stock (other than the Transfer of any Escrow Shares to the Corporation as a result of the retirement or cancellation of any Escrow Shares pursuant to the terms of the Escrow Agreement), the aggregate voting power (stated as a percentage) of all shares of Common Stock Beneficially Owned by the members of the ANPP Stockholder Group and its Affiliates, the ANPP Permitted Transferee and its Affiliates, or such third-party Transferee and its Affiliates (including for these purposes Conversion Shares, other than Conversion Shares issued or issuable in respect of any Escrow Shares), as applicable, would exceed by more than one percentage point the aggregate voting power of the ANPP Stockholder Group to vote with the holders of the Common Stock, voting together as a single class, on matters that may be submitted to a vote of stockholders of the Corporation (other than the election of directors) immediately following the effectiveness of the Merger; provided, that Escrow Shares will be excluded for purposes of calculating whether the one percentage point voting power threshold has been exceeded, and (x) any Released Series A Shares or Series A Conversion Shares and (y) any shares of Common Stock issuable upon exercise of the Converted Options, will, in each case, be deemed to have been outstanding immediately following the effectiveness of the Merger for purposes of calculating whether the one percentage point voting power threshold has been exceeded.

“Merger Agreement” means the Agreement and Plan of Merger, dated as of June 4, 2008, by and among the Corporation, Discovery Holding Company and DHC Merger Sub, Inc.

“NASDAQ” means The Nasdaq Stock Market, Inc.

“Parity Stock” means, as the context requires, any class or series of capital stock, whether now existing or hereafter created, of the Corporation ranking on a parity basis with the Convertible Preferred Stock as to dividend rights, rights of redemption and/or rights on liquidation, as the case may be. Capital stock of any class or series shall rank on a parity basis as to dividend rights, rights of redemption or rights on liquidation with the Convertible Preferred Stock, whether or not the dividend rates, dividend payment dates, redemption or liquidation prices per share or sinking fund or mandatory redemption provisions, if any, are different from those of the Convertible Preferred Stock, if the holders of shares of such class or series shall be entitled to dividend payments, payments on redemption or payments of amounts distributable upon dissolution, liquidation or winding up of the Corporation, as the case may be, in proportion to their respective accrued and unpaid dividends, redemption prices or liquidation prices, respectively, without preference or priority, one over the other, as between the holders of shares of such class or series and the holders of Convertible Preferred Stock. No class or series of capital stock that ranks junior to the Convertible Preferred Stock as to rights on liquidation shall rank or be deemed to rank on a parity basis with the Convertible Preferred Stock as to dividend rights or rights of redemption, unless the instrument creating or evidencing such class or series of capital stock otherwise expressly provides. The Series A Preferred Stock and the Series C Preferred Stock shall each be deemed to be Parity Stock as to each of the other such series.

---

“Permitted Transfer” means the Transfer of (i) all shares of Series A Preferred Stock then outstanding, (ii) all shares of Series A Conversion Shares held by such Person Transferring shares of Series A Preferred Stock and its Affiliates, and (iii) all shares of Series A Preferred Stock and Series A Conversion Shares that are Escrow Shares, to any Transferee so long as after giving effect to such Transfer to it, the shares of Convertible Preferred Stock and Common Stock Beneficially Owned by such Transferee and its Affiliates (including any Conversion Shares) immediately following such Transfer do not result in such Transferee and its Affiliates collectively Beneficially Owning a number of shares that is in excess of the Maximum Amount.

“Person” means any individual, corporation, partnership, limited liability company, joint venture, association, joint stock company, trust, unincorporated organization, government or agency or political subdivision thereof, or other entity, whether acting in an individual, fiduciary or other capacity.

“Related Party” means any Affiliate of a Person; provided, that, for the purposes of this definition only, without limiting the generality of the definition of Affiliate, any Person (“First Person”) that directly or indirectly owns and has the right to vote or direct the vote (in the election of directors) of securities of another Person (“Other Person”) constituting 25% or more of the outstanding voting power of such Other Person will be deemed to Control such Other Person, so long as no other securityholder of such Other Person directly or indirectly owns and has the right to vote or direct the vote (in the election of directors) of securities of such Other Person constituting a greater percentage of the outstanding voting power that is owned by such First Person in such Other Person.

“Released Series A Shares” means any issued and outstanding shares of Series A Preferred Stock that were Escrow Shares, which, as of the date of determination, are no longer subject to the Escrow Agreement.

“Released Series C Shares” means any issued and outstanding shares of Series C Preferred Stock that were Escrow Shares, which, as of the date of determination, are no longer subject to the Escrow Agreement.

“Released Shares” means, as of the date of determination, Released Series A Shares and Released Series C Shares.

“Rights” has the meaning ascribed thereto in the Company Rights Plan (or the comparable right under any successor or substitute shareholder rights plan).

“Series A Conversion Shares” shares of Common Stock or other securities of the Corporation issued or issuable upon conversion of the shares of Series A Preferred Stock.

“Series A Convertible Securities” means Convertible Securities convertible into or exercisable or exchangeable for Series A Common Stock.

“Series B Convertible Securities” means Convertible Securities convertible into or exercisable or exchangeable for Series B Common Stock.

---

“Series C Convertible Securities” means Convertible Securities convertible into or exercisable or exchangeable for Series C Common Stock.

“Senior Stock” means, as the context requires, (i) any class or series of Series Preferred Stock hereafter created, or (ii) any class or series of capital stock, whether now existing or hereafter created, of the Corporation, in each case, ranking prior to the Convertible Preferred Stock as to dividend rights, rights of redemption and/or rights on liquidation, as the case may be. Capital stock of any class or series shall rank prior to the Convertible Preferred Stock as to dividend rights, rights of redemption or rights on liquidation if the holders of shares of such class or series shall be entitled to dividend payments, payments on redemption or payments of amounts distributable upon dissolution, liquidation or winding up of the Corporation, as the case may be, in preference or priority to the holders of shares of Convertible Preferred Stock. No class or series of capital stock that ranks on a parity basis with or junior to the Convertible Preferred Stock as to rights on liquidation shall rank or be deemed to rank prior to the Convertible Preferred Stock as to dividend rights or rights of redemption, notwithstanding that the dividend rate, dividend payment dates, sinking fund provisions, if any, or redemption provisions thereof are different from those of the Convertible Preferred Stock, unless the instrument creating or evidencing such class or series of capital stock otherwise expressly provides. Notwithstanding the foregoing, any class or series of capital stock which requires the Corporation to cumulate or accrue dividends on such shares, or to pay such dividends in shares of capital stock in the event such dividends are not declared and paid during any dividend period applicable to such class or series, or to add any such unpaid dividends to the liquidation or redemption price of any such class or series of capital stock, shall constitute Senior Stock.

“Subsidiary” when used with respect to any Person, means any other Person (1) of which (x) in the case of a corporation, at least (A) a majority of the equity and (B) a majority of the voting interests are owned or Controlled, directly or indirectly, by such first Person, by any one or more of its Subsidiaries, or by such first Person and one or more of its Subsidiaries or (y) in the case of any Person other than a corporation, such first Person, one or more of its Subsidiaries, or such first Person and one or more of its Subsidiaries (A) owns a majority of the equity interests thereof and (B) has the power to elect or direct the election of a majority of the members of the governing body thereof or otherwise has Control over such organization or entity; or (2) that is required to be consolidated with such first Person for financial reporting purposes under GAAP.

“Transaction Agreement” means the Transaction Agreement, dated as of June 4, 2008, by and among Discovery Holding Company, the Corporation, DHC Merger Sub, Inc., Advance/Newhouse Programming Partnership, and, with respect to Section 5.14 thereof only, Advance Publications, Inc. and Newhouse Broadcasting Corporation.

“Transfer” means, directly or indirectly, to sell, transfer, assign, pledge, encumber, hypothecate or similarly dispose of, either voluntarily or involuntarily, or to enter into any contract, option or other arrangement or understanding with respect to the sale, transfer, assignment, pledge, encumbrance, hypothecation or similar disposition of, any capital stock Beneficially Owned by a stockholder or any interest in any capital stock Beneficially Owned by a stockholder and “Transferee” means any Person to whom such a Transfer is made.



“Wholly-Owned Subsidiary” means, as to any Person, a Subsidiary of such Person, 100% of the equity and voting interest in which is owned beneficially or of record, directly and/or indirectly, by such Person.

“Underlying Securities” means, with respect to any class or series of Convertible Securities, the class or series of securities into which such class or series of Convertible Securities are directly or indirectly convertible, or for which such Convertible Securities are directly or indirectly exchangeable, or that such Convertible Securities evidence the right to purchase or otherwise receive, directly or indirectly.

If, after the effectiveness of the Merger, there is a subdivision, split, stock dividend, combination, reclassification or similar event with respect to any shares of the capital stock of the Corporation, then, in any such event, the numbers and types of shares of such capital stock referred to in this Restated Certificate shall be appropriately adjusted.

## SECTION B

### SERIES A COMMON STOCK, SERIES B COMMON STOCK AND SERIES C COMMON STOCK

Each share of common stock, par value \$0.01 per share (“Old Common Stock”), of the Corporation issued and outstanding immediately prior to the effectiveness of this Restated Certificate (the time of such effectiveness being referred to herein as the “Effective Time”) shall be changed into and reclassified into one fully paid and non-assessable share of Series A Common Stock such that at the Effective Time each holder of record of Old Common Stock shall, without further action, be and become the holder of one share of Series A Common Stock for each share of Old Common Stock theretofore held of record by such holder.

Each share of Series A Common Stock, each share of Series B Common Stock and each share of Series C Common Stock shall, except as otherwise provided in this Article IV, Section B, be identical in all respects and shall have equal rights, powers and privileges.

#### 1. Voting Rights.

Holders of Series A Common Stock shall be entitled to one vote for each share of such stock held, and holders of Series B Common Stock shall be entitled to ten votes for each share of such stock held, on all matters that may be submitted to a vote of stockholders of the Corporation (regardless of whether such holders are voting together with the holders of all Voting Securities (as defined below), or as a separate class with the holders of one or more series of Common Stock, or as a separate series of Common Stock, or otherwise). Holders of Series C Common Stock shall not be entitled to any voting powers, except as (and then only to the extent) otherwise required by the laws of the State of Delaware. If a vote or consent of the holders of Series C Common Stock should at any time be required by the laws of the State of Delaware on any matter, the holders of Series C Common Stock shall be entitled to 1/100<sup>th</sup> of a vote on such matter for each share of Series C Common Stock held. Except as may otherwise be required by the laws of the State of Delaware or as may otherwise be provided in this Restated Certificate, or, with respect to any series of Series Preferred Stock, in any resolution or resolutions

---

establishing such series pursuant to authority vested in the Board of Directors by Article IV of this Restated Certificate, the holders of outstanding shares of Series A Common Stock, the holders of outstanding shares of Series B Common Stock, the holders of outstanding shares of Series A Preferred Stock, and the holders of outstanding shares of each series of Series Preferred Stock entitled to vote thereon, if any, shall vote as one class with respect to all matters to be voted on by stockholders of the Corporation (excluding, with respect to the Series A Preferred Stock, the election of directors and any matter provided by Section 242 of the DGCL, but including, without limitation, and irrespective of the provisions of Section 242(b)(2) of the DGCL, any proposed amendment to this Restated Certificate that would (x) increase (i) the number of authorized shares of Common Stock or any series thereof, (ii) the number of authorized shares of Preferred Stock or any series thereof or (iii) the number of authorized shares of any other class or series of capital stock of the Corporation hereafter established or (y) decrease (i) the number of authorized shares of Common Stock or any series thereof, (ii) the number of authorized shares of Preferred Stock or any series thereof or (iii) the number of authorized shares of any other class or series of capital stock of the Corporation hereafter established (but not below the number of shares of such class or series of capital stock, as the case may be, then outstanding)), and no separate class or series vote or consent of the holders of shares of any class or series of capital stock of the Corporation shall be required for the approval of any such matter. As provided for in Article V of this Restated Certificate, the Series A Preferred Stock Directors shall be elected by the holders of the Series A Preferred Stock (and holders of Series A Common Stock or Series B Common Stock shall have no right to vote or participate in the election of the Series A Preferred Stock Directors), and the Common Stock Directors (as defined in Article V, Section A.2) shall be elected by the holders of the Series A Common Stock, Series B Common Stock and any series of Series Preferred Stock authorized to vote thereon (and the holders of the Series A Preferred Stock shall have no right to vote or participate in the election of the Common Stock Directors). The term "Voting Securities" means the shares of Series A Common Stock, Series B Common Stock, and, subject to Article IV, Section C.5, shares of Series A Preferred Stock, on an as converted basis, and any series of Series Preferred Stock and any other class or series of securities of the Corporation hereafter established the holders of which are entitled to vote with the holders of the Series A Common Stock and the Series B Common Stock generally upon all matters that may be submitted to a vote of stockholders.

2. Conversion Rights.

(a) Each share of Series B Common Stock shall be convertible, at the option of the holder thereof, into one fully paid and non-assessable share of Series A Common Stock. Any such conversion may be effected by any holder of Series B Common Stock by surrendering such holder's certificate or certificates for the Series B Common Stock to be converted, duly endorsed, at the office of the Corporation or any transfer agent for the Series B Common Stock, together with a written notice to the Corporation at such office that such holder elects to convert all or a specified number of shares of Series B Common Stock represented by such certificate and stating the name or names in which such holder desires the certificate or certificates representing shares of Series A Common Stock to be issued and, if less than all of the shares of Series B Common Stock represented by one certificate are to be converted, the name or names in which such holder desires the certificate representing such remaining shares of Series B

---

Common Stock to be issued. If so required by the Corporation, any certificate representing shares surrendered for conversion in accordance with this Section shall be accompanied by instruments of transfer, in form satisfactory to the Corporation, duly executed by the holder of such shares or the duly authorized representative of such holder, and shall, if required by the last sentence of Article IV, Section B.2(b), be accompanied by payment, or evidence of payment, of applicable issue or transfer taxes. Promptly thereafter, the Corporation shall issue and deliver to such holder or such holder's nominee or nominees, a certificate or certificates representing the number of shares of Series A Common Stock to which such holder shall be entitled as herein provided. If less than all of the shares of Series B Common Stock represented by any one certificate are to be converted, the Corporation shall issue and deliver to such holder or such holder's nominee or nominees a new certificate representing the shares of Series B Common Stock not converted. Such conversion shall be deemed to have been made at the close of business on the date of receipt by the Corporation or any such transfer agent of the certificate or certificates, notice and, if required, instruments of transfer and payment or evidence of payment of taxes referred to above, and the person or persons entitled to receive the Series A Common Stock issuable on such conversion shall be treated for all purposes as the record holder or holders of such Series A Common Stock on that date. A number of shares of Series A Common Stock equal to the number of shares of Series B Common Stock outstanding from time to time shall be set aside and reserved for issuance upon conversion of shares of Series B Common Stock. Shares of Series B Common Stock that have been converted hereunder shall become treasury shares that may be issued or retired by resolution of the Board of Directors. Shares of Series A Common Stock and shares of Series C Common Stock shall not be convertible into shares of any other series of Common Stock.

(b) The Corporation shall pay any and all documentary, stamp or similar issue or transfer taxes that may be payable in respect of the issue or delivery of certificates representing shares of Common Stock on conversion of shares of Series B Common Stock pursuant to this Article IV, Section B.2. The Corporation shall not, however, be required to pay any tax that may be payable in respect of any issue or delivery of certificates representing any shares of Common Stock in a name other than that in which the shares of Series B Common Stock so converted were registered and no such issue or delivery shall be made unless and until the person requesting the same has paid to the Corporation the amount of any such tax or has established to the satisfaction of the Corporation that such tax has been paid.

### 3. Dividends.

Whenever a dividend, other than a dividend that constitutes a Share Distribution, is paid to the holders of any series of Common Stock then outstanding, the Corporation shall also pay to the holders of each other series of Common Stock then outstanding an equal dividend per share. Dividends shall be payable only as and when declared by the Board of Directors of the Corporation out of assets of the Corporation legally available therefor. Whenever a Share Distribution is paid to the holders of any series of Common Stock then outstanding, the Corporation shall also pay a Share Distribution to the holders of each other series of Common Stock then outstanding, as provided in Article IV, Section B.4 below. For purposes of this Article IV, Section B.3 and Article IV, Section B.4 below, a "Share Distribution" means a dividend or distribution (including a distribution made in connection with any dissolution,

---

winding up or full or partial liquidation of the Corporation) payable in shares of any class or series of capital stock, Convertible Securities or other securities of the Corporation or any other Person.

4. Share Distributions.

If at any time a Share Distribution is to be made with respect to any series of Common Stock, such Share Distribution may be declared and paid only as follows:

(a) a Share Distribution (i) consisting of shares of Series C Common Stock or Series C Convertible Securities may be declared and paid to holders of Series A Common Stock, Series B Common Stock and Series C Common Stock, on an equal per share basis, or (ii) consisting of (x) shares of Series A Common Stock or Series A Convertible Securities may be declared and paid to holders of Series A Common Stock, on an equal per share basis, (y) shares of Series B Common Stock or Series B Convertible Securities may be declared and paid to holders of Series B Common Stock, on an equal per share basis, and (z) shares of Series C Common Stock or Series C Convertible Securities may be declared and paid to holders of Series C Common Stock, on an equal per share basis; or

(b) subject to Section B.4(c) below, a Share Distribution consisting of any class or series of securities of the Corporation or any other Person other than Series A Common Stock, Series B Common Stock or Series C Common Stock (or Series A Convertible Securities, Series B Convertible Securities or Series C Convertible Securities), may be declared and paid on the basis of a distribution of (i) identical securities, on an equal per share basis, to holders of Series A Common Stock, Series B Common Stock and Series C Common Stock, (ii) separate classes or series of securities, on an equal per share basis, to the holders of each such series of Common Stock or (iii) a separate class or series of securities to the holders of one or more series of Common Stock and, on an equal per share basis, a different class or series of securities to the holders of all other series of Common Stock; provided, that, in connection with a Share Distribution pursuant to clause (ii) or clause (iii), (1) such separate classes or series of securities (and, if the distribution consists of Convertible Securities, the Underlying Securities) do not differ in any respect other than their relative voting rights (and any related differences in designation, conversion, redemption and share distribution provisions, as applicable), with holders of shares of Series B Common Stock receiving the class or series of securities having (or convertible into or exercisable or exchangeable for securities having) the highest relative voting rights and the holders of shares of each other series of Common Stock receiving securities of a class or series having (or convertible into or exercisable or exchangeable for securities having) lesser relative voting rights, in each case, without regard to whether such rights differ to a greater or lesser extent than the corresponding differences in voting rights (and any related differences in designation, conversion, redemption and share distribution, as applicable) among the Series A Common Stock, the Series B Common Stock and the Series C Common Stock, and (2) in the event the securities to be received by the holders of shares of Common Stock other than the Series B Common Stock consist of different classes or series of securities, with each such class or series of securities (or the Underlying Securities into which such class or series is convertible or for which such class or series is exercisable or exchangeable) differing only with respect to the relative voting rights of such class or series (and any related differences in designation,

---

conversion, redemption and share distribution provisions, as applicable), then such classes or series of securities will be distributed to the holders of each series of Common Stock (other than the Series B Common Stock) (A) as the Board of Directors determines or (B) such that the relative voting rights (and any related differences in designation, conversion, redemption and share distribution provisions, as applicable) of the class or series of securities (or the Underlying Securities) to be received by the holders of each series of Common Stock (other than the Series B Common Stock) corresponds to the extent practicable to the relative voting rights (and any related differences in designation, conversion, redemption and share distribution provisions, as applicable) of such series of Common Stock, as compared to the other series of Common Stock (other than the Series B Common Stock).

(c) So long as any shares of Series B Common Stock are issued and outstanding, unless a Series B Consent has been received approving the terms of such Share Distribution, (i) no Share Distribution may be declared or paid if the securities to be received by the holders of the Series C Common Stock in such Share Distribution (and, if the Share Distribution consists of Convertible Securities, the Underlying Securities with respect thereto) are entitled to vote with respect to matters upon which security holders of the issuer thereof are generally entitled to vote (other than to an extent no greater than the holders of Series C Common Stock are entitled to vote upon matters as provided in this Restated Certificate); and (ii) no Share Distribution of securities entitled to vote generally upon matters that may be submitted to a vote of security holders of the issuer thereof, whether consisting of any class or series of securities of the Corporation or any other Person (or Convertible Securities that are convertible into, exchangeable for or evidence the right to purchase such securities), may be declared or paid unless the securities to be received by the holders of Series B Common Stock in such Share Distribution (and, if the Share Distribution consists of Convertible Securities, the Underlying Securities with respect thereto) at all times have voting power with respect to matters upon which security holders of the issuer thereof are generally entitled to vote per share or other unit ("Per Share Voting Power") of not less than ten times the Per Share Voting Power of the securities (and, if the Share Distribution consists of Convertible Securities, the Underlying Securities with respect thereto) to be received in such Share Distribution by the holders of each other series of Common Stock receiving securities entitled to such voting power, if any.

#### 5. Reclassification.

The Corporation shall not reclassify, subdivide or combine one series of Common Stock without reclassifying, subdividing or combining each other series of Common Stock, on an equal per share basis. Any such reclassification, subdivision or combination must also satisfy the requirements set forth in Article VII of this Restated Certificate.

#### 6. Liquidation and Dissolution.

In the event of a liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, after payment or provision for payment of the debts and liabilities of the Corporation and subject to the prior payment in full of the preferential amounts to which any series of Series Preferred Stock and the Convertible Preferred Stock are entitled, the holders of shares of Series A Common Stock, the holders of shares of Series B Common Stock, the holders

---

of shares of Series C Common Stock and the holders of shares of Convertible Preferred Stock shall share equally, on a share for share basis (and, in the case of the Convertible Preferred Stock, on an as converted into Common Stock basis), in the assets of the Corporation remaining for distribution to the holders of Common Stock. Neither the consolidation or merger of the Corporation with or into any other Person or Persons nor the sale, transfer or lease of all or substantially all of the assets of the Corporation shall itself be deemed to be a liquidation, dissolution or winding up of the Corporation within the meaning of this Article IV, Section B.6.

## SECTION C

### SERIES A PREFERRED STOCK AND SERIES C PREFERRED STOCK

The Convertible Preferred Stock shall have the following preferences, limitations and relative rights.

1. Dividends.

(a) Cash Dividend Rights. Subject to the prior preferences and other rights of any Senior Stock and the provisions of Article IV, Section C.3 hereof, the holders of shares of Convertible Preferred Stock shall be entitled to receive cash dividends per share in an amount (the "Participating Dividend") equal to the product of (x) the amount of the cash dividend declared and to be paid on a single share of Common Stock and (y) the number of shares of Common Stock into which a share of Convertible Preferred Stock may be converted as of the record date for the determination of holders of Common Stock entitled to receive such dividend. Except for a dividend of the Rights pursuant to the Company Rights Plan (a "Rights Dividend"), the Participating Dividends shall be the only dividends payable to holders of Convertible Preferred Stock and such Participating Dividends shall be declared and paid only when, as and if a cash dividend is declared and paid upon the outstanding shares of Common Stock. Dividends or distributions on the Common Stock which are paid or made in Common Stock or other securities, properties or other assets of the Corporation or any other Person other than cash shall not constitute Participating Dividends and holders of Convertible Preferred Stock shall have no rights with respect thereto, other than as may be provided in Article IV, Section C.4. Participating Dividends shall be payable to holders of record of shares of Convertible Preferred Stock as of the record date for the determination of holders of Common Stock entitled to receive such dividend and shall be payable on the payment date established by the Corporation for the payment of such cash dividend to holders of Common Stock. To the extent that the Convertible Preferred Stock is, at the time of the declaration of any such cash dividend, convertible into any other securities of the Corporation in addition to or in lieu of being convertible into Common Stock, then the Corporation shall pay to the holders of Convertible Preferred Stock, in addition to the amount of the dividend calculated above in respect of the number of shares of Common Stock into which such share of Convertible Preferred Stock is then convertible, if any, an amount equal to the amount of the dividend payable per share or other unit of securities into which the Convertible Preferred Stock is then convertible multiplied by the number of shares or other units issuable to such holder upon conversion of a share of Convertible Preferred Stock.

---

(b) Method of Payment. All dividends (other than a Rights Dividend) payable with respect to the shares of Convertible Preferred Stock pursuant to Article IV, Section C.1(a) shall be declared and paid in cash. All cash dividends paid with respect to the shares of Convertible Preferred Stock pursuant to Article IV, Section C.1(a) shall be paid *pro rata* to all the holders of shares of Convertible Preferred Stock outstanding on the applicable record date, on an as converted basis.

2. Distribution Upon Liquidation, Dissolution or Winding Up. Subject to the prior payment in full of the preferential amounts to which any Senior Stock is entitled, in the event of any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, the holders of Convertible Preferred Stock shall be entitled to receive from the assets of the Corporation available for distribution to stockholders, before any payment or distribution shall be made to the holders of any Junior Stock, an amount in cash or property at its fair market value, as determined by the Board of Directors in good faith, or a combination thereof, per share, equal to the Liquidation Preference of a share of Convertible Preferred Stock as of the date of payment or distribution, which payment or distribution shall be made *pari passu* with any such payment or distribution made to the holders of any Parity Stock ranking on a parity basis with the Convertible Preferred Stock with respect to distributions upon liquidation, dissolution or winding up of the Corporation. Following the payment of all amounts owing to holders of each class or series of capital stock of the Corporation having a preference or priority over the Common Stock as to distributions upon the liquidation, dissolution or winding up of the Corporation, then the holders of the Convertible Preferred Stock shall be entitled to participate, with the holders of the Common Stock and with the holders of any other securities of the Corporation entitled to participate, *pro rata*, based upon the number of shares of Common Stock into which the shares of Convertible Preferred Stock are then convertible, as to any amounts remaining for distribution to the holders of Common Stock upon the liquidation, dissolution or winding up of the Corporation. If, upon distribution of the Corporation's assets in liquidation, dissolution or winding up, the assets of the Corporation to be distributed among the holders of the Convertible Preferred Stock and to all holders of any Parity Stock ranking on a parity basis with the Convertible Preferred Stock with respect to distributions upon liquidation, dissolution or winding up shall be insufficient to permit payment in full to such holders of the respective preferential amounts to which they are entitled, then the entire assets of the Corporation to be distributed to holders of the Convertible Preferred Stock and such Parity Stock shall be distributed to such holders based upon and in proportion to the full preferential amounts to which the shares of Convertible Preferred Stock and such Parity Stock would otherwise be entitled. Neither the consolidation or merger of the Corporation with or into any other corporation or corporations nor the sale, transfer or lease of all or substantially all of the assets of the Corporation shall itself be deemed to be a liquidation, dissolution or winding up of the Corporation within the meaning of this Article IV, Section C.2. Notice of the liquidation, dissolution or winding up of the Corporation shall be given, not less than 20 days prior to the date on which such liquidation, dissolution or winding up is expected to take place or become effective, to the holders of record of the shares of Convertible Preferred Stock.

3. Limitations on Dividends. If at any time the Corporation shall have declared a dividend on the Convertible Preferred Stock and failed to pay or set aside consideration sufficient to pay such dividend, or if the Corporation declares a cash dividend on the shares of



Common Stock and fails to pay or set aside the Participating Dividend required to be paid to the holders of the Convertible Preferred Stock, then (i) the Corporation shall not declare or pay any dividend on or make any distribution with respect to any Parity Stock or Junior Stock or set aside any money or assets for any such purpose until such dividend payable to the holders of Convertible Preferred Stock has been paid or consideration sufficient to pay such dividend has been set aside for such purpose, and (ii) neither the Corporation nor any Subsidiary thereof shall redeem, exchange, purchase or otherwise acquire any shares of Convertible Preferred Stock, Parity Stock or Junior Stock, or set aside any money or assets for any such purpose, a sinking fund or otherwise, unless all then outstanding shares of any class or series of Parity Stock that by the terms of the instrument creating or evidencing such Parity Stock is required to be redeemed under such circumstances are redeemed or exchanged pursuant to the terms hereof and thereof.

Neither the Corporation nor any Subsidiary thereof shall redeem, exchange, purchase or otherwise acquire any Parity Stock or Junior Stock, or set aside any money or assets for any such purpose, if after giving effect to such redemption, exchange, purchase or other acquisition, the amount (as determined by the Board of Directors in good faith) that would be available for distribution to the holders of the Convertible Preferred Stock upon liquidation, dissolution or winding up of the Corporation if such liquidation, dissolution or winding up were to occur on the date fixed for such redemption, exchange, purchase or other acquisition of such Parity Stock or Junior Stock would be less than the aggregate Liquidation Preference as of such date of all shares of Convertible Preferred Stock then outstanding.

Nothing contained in this Article IV, Section C.3 shall prevent (i) the payment of dividends on any Junior Stock solely in shares of Junior Stock or the redemption, purchase or other acquisition of Junior Stock solely in exchange for (together with a cash adjustment for fractional shares, if any) shares of Junior Stock, or (ii) the payment of dividends on any Parity Stock solely in shares of Parity Stock and/or Junior Stock or the redemption, exchange, purchase or other acquisition of Parity Stock solely in exchange for (together with a cash adjustment for fractional shares, if any), or through the application of the proceeds from the sale of, shares of Parity Stock and/or Junior Stock.

All provisions of this Article IV, Section C.3 are for the sole benefit of the holders of Convertible Preferred Stock and accordingly, if the holders of shares of Convertible Preferred Stock shall have waived (as provided in Article IV, Section C.6) in whole or in part the benefit of the applicable provisions, either generally or in the specific instance, such provision shall not (to the extent of such waiver, in the case of a partial waiver) restrict the redemption, exchange, purchase or other acquisition of, or declaration, payment or making of any dividends or distributions on the Convertible Preferred Stock, any Parity Stock or any Junior Stock.

#### 4. Conversion.

(a) Series A Preferred Stock Optional and Mandatory Conversion. Each outstanding share of Series A Preferred Stock is convertible at the option of the holder at any time into fully paid and non-assessable full share(s) of Series A Common Stock at the then effective Series A Conversion Rate (as defined below). In addition, (i) the holder of each outstanding share of Series A Preferred Stock shall be deemed to have automatically converted

---

such share into fully paid and non-assessable share(s) of Series A Common Stock at the then effective Series A Conversion Rate immediately upon the Transfer (other than a Transfer that is a Permitted Transfer or a Transfer from one member of the ANPP Stockholder Group to another member of the ANPP Stockholder Group) of such share to any Person, and (ii) the holders of all outstanding shares of Series A Preferred Stock shall be deemed to have automatically converted all such shares of Series A Preferred Stock into fully paid and non-assessable share(s) of Series A Common Stock at such time as the number of issued and outstanding shares of Series A Preferred Stock (other than any such shares that are Escrow Shares as of the date of determination) is less than 80% of the Base Amount. Such conversion pursuant to clauses (i) or (ii) above is referred to herein as the "Series A Mandatory Conversion". In the event of a Series A Mandatory Conversion, the share(s) of Series A Preferred Stock subject to such Series A Mandatory Conversion shall be automatically converted into fully paid and non-assessable share(s) of Series A Common Stock at the then effective Series A Conversion Rate without any further action by the Corporation or holders of Series A Preferred Stock and whether or not the certificate(s) representing such share(s) of Series A Preferred Stock are surrendered to the Corporation; and the Corporation shall not be obligated to issue certificate(s) evidencing the share(s) of Series A Common Stock issuable upon such Series A Mandatory Conversion unless the certificate(s) evidencing such share(s) of Series A Preferred Stock are delivered to the Corporation, or the holder thereof notifies the Corporation that such certificate(s) have been lost, stolen or destroyed and executes an agreement satisfactory to the Corporation to indemnify the Corporation from any loss incurred by it in connection with such certificate(s). In case cash, securities or property other than Series A Common Stock shall be payable, deliverable or issuable upon conversion as provided herein, then all references to Series A Common Stock in this Article IV, Section C.4 shall be deemed to apply, so far as appropriate and as nearly as may be, to such cash, property or other securities. Subject to the provisions for adjustment hereinafter set forth in this Article IV, Section C.4, the Series A Preferred Stock may be converted into Series A Common Stock at the initial conversion rate of one fully paid and non-assessable share of Series A Common Stock for each share of Series A Preferred Stock so converted (this conversion rate as from time to time adjusted cumulatively pursuant to the provisions of this Section is hereinafter referred to as the "Series A Conversion Rate").

(b) Series C Preferred Stock Optional and Mandatory Conversion. Each outstanding share of Series C Preferred Stock is convertible at the option of the holder at any time into fully paid and non-assessable full share(s) of Series C Common Stock at the then effective Series C Conversion Rate. In addition, (i) the holder of each outstanding share of Series C Preferred Stock shall be deemed to have automatically converted such share into fully paid and non-assessable share(s) of Series C Common Stock at the then effective Series C Conversion Rate immediately upon the Transfer of such share to any Person that is not a member of the ANPP Stockholder Group, and (ii) the holders of all outstanding shares of Series C Preferred Stock shall be deemed to have automatically converted all such shares of Series C Preferred Stock into fully paid and non-assessable share(s) of Series C Common Stock at such time as a Series A Mandatory Conversion shall be deemed to have occurred pursuant to Article IV, Section C.4(a)(ii). Such conversion pursuant to (i) or (ii) referred to above is referred to herein as the "Series C Mandatory Conversion" and, together with any Series A Mandatory Conversion, the "Mandatory Conversion". In the event of a Series C Mandatory Conversion, the share(s) of Series C Preferred Stock subject to such Series C Mandatory Conversion shall be

---

automatically converted into fully paid and non-assessable share(s) of Series C Common Stock at the then effective Series C Conversion Rate without any further action by the Corporation or holders of Series C Preferred Stock and whether or not the certificate(s) representing such share(s) of Series C Preferred Stock are surrendered to the Corporation; and the Corporation shall not be obligated to issue certificate(s) evidencing the share(s) of Series C Common Stock issuable upon such Series C Mandatory Conversion unless the certificate(s) evidencing such share(s) of Series C Preferred Stock are delivered to the Corporation, or the holder thereof notifies the Corporation that such certificate(s) have been lost, stolen or destroyed and executes an agreement satisfactory to the Corporation to indemnify the Corporation from any loss incurred by it in connection with such certificate(s). In case cash, securities or property other than Series C Common Stock shall be payable, deliverable or issuable upon conversion as provided herein, then all references to Series C Common Stock in this Article IV, Section C.4 shall be deemed to apply, so far as appropriate and as nearly as may be, to such cash, property or other securities. Subject to the provisions for adjustment hereinafter set forth in this Article IV, Section C.4, the Series C Preferred Stock may be converted into Series C Common Stock at the initial conversion rate of one fully paid and non-assessable share of Series C Common Stock for each share of Series C Preferred Stock so converted (this conversion rate as from time to time adjusted cumulatively pursuant to the provisions of this Section is hereinafter referred to as the "Series C Conversion Rate" and, together with the Series A Conversion Rate, the "Conversion Rate").

Notwithstanding anything to the contrary in this Article IV, subject to the provisions for adjustment hereinafter set forth in this Article IV, Section C.4, any provisions in this Article that refers to a conversion of the Convertible Preferred Stock shall mean, (x) in the case of the Series A Preferred Stock, the conversion of the Series A Preferred Stock into the Series A Common Stock and (y) in the case of the Series C Preferred Stock, the conversion of the Series C Preferred Stock into the Series C Common Stock.

(c) Adjustments for Stock Splits, Stock Dividends, Etc.

(i) In case after the Issue Date the Corporation shall (1) pay a dividend or make a distribution on its outstanding shares of Series A Common Stock in shares of its Common Stock, (2) subdivide the then outstanding shares of Series A Common Stock into a greater number of shares of Series A Common Stock, (3) combine the then outstanding shares of Series A Common Stock into a smaller number of shares of Series A Common Stock, or (4) issue by reclassification of its shares of Series A Common Stock any shares of any other class of capital stock of the Corporation (including any such reclassification in connection with a merger in which the Corporation is the continuing corporation), then the Series A Conversion Rate in effect immediately prior to the opening of business on the record date for such dividend or distribution or the effective date of such subdivision, combination or reclassification shall be adjusted so that the holder of each share of the Series A Preferred Stock thereafter surrendered for conversion shall be entitled to receive the number and kind of shares of capital stock of the Corporation that such holder would have owned or been entitled to receive immediately following such action had such shares of Series A Preferred Stock been converted immediately prior to such time.

---

(ii) In case after the Issue Date the Corporation shall (1) pay a dividend or make a distribution on its outstanding shares of Series C Common Stock in shares of its Common Stock, (2) subdivide the then outstanding shares of Series C Common Stock into a greater number of shares of Series C Common Stock, (3) combine the then outstanding shares of Series C Common Stock into a smaller number of shares of Series C Common Stock, or (4) issue by reclassification of its shares of Series C Common Stock any shares of any other class of capital stock of the Corporation (including any such reclassification in connection with a merger in which the Corporation is the continuing corporation), then the Series C Conversion Rate in effect immediately prior to the opening of business on the record date for such dividend or distribution or the effective date of such subdivision, combination or reclassification shall be adjusted so that the holder of each share of the Series C Preferred Stock thereafter surrendered for conversion shall be entitled to receive the number and kind of shares of capital stock of the Corporation that such holder would have owned or been entitled to receive immediately following such action had such shares of Series C Preferred Stock been converted immediately prior to such time.

(iii) An adjustment made pursuant to this Article IV, Section C.4(c) for a dividend or distribution shall become effective immediately after the record date for the dividend or distribution and an adjustment made pursuant to this Article IV, Section C.4(c) for a subdivision, combination or reclassification shall become effective immediately after the effective date of the subdivision, combination or reclassification. Such adjustment shall be made successively whenever any action listed above shall be taken.

(d) Adjustments for Rights, Warrants, etc.

(i) In case the Corporation shall after the Issue Date issue any rights or warrants to all holders of shares of Series A Common Stock entitling them (for a period of not more than 45 days after the record date for the determination of stockholders entitled to receive such rights or warrants) to subscribe for or purchase shares of Series A Common Stock (or Series A Convertible Securities) at a price per share of the Series A Common Stock (or having an initial exercise price or conversion price per share of Series A Common Stock) less than the then current market price per share of such Series A Common Stock on such record date, the number of shares of Series A Common Stock into which each share of Series A Preferred Stock shall thereafter be convertible shall be determined by multiplying the number of shares of Series A Common Stock into which such share of Series A Preferred Stock was theretofore convertible immediately prior to such record date by a fraction, the numerator of which shall be the number of shares of Series A Common Stock outstanding on such record date plus the number of additional shares of Series A Common Stock offered for subscription or purchase (or into which the Series A Convertible Securities so offered are initially convertible) and the denominator of which shall be the number of shares of Series A Common Stock outstanding on such record date plus the number of shares of Series A Common Stock, which the aggregate offering price of the total number of shares of Series A Common Stock so offered (or the aggregate initial conversion or exercise price of the Series A Convertible Securities so offered) would purchase at the then current market price per share of Series A Common Stock on such record date. Such adjustment shall be made successively whenever any such rights or warrants are issued and shall become effective immediately after the record date for the determination of stockholders entitled to



receive such rights or warrants. In the event that all of the shares of Series A Common Stock (or all of the Series A Convertible Securities) subject to such rights or warrants have not been issued when such rights or warrants expire (or, in the case of rights or warrants to purchase Series A Convertible Securities which have been exercised, all of the shares of Series A Common Stock issuable upon conversion of such Series A Convertible Securities have not been issued prior to the expiration of the conversion right thereof), then the Series A Conversion Rate shall be readjusted retroactively to be the Series A Conversion Rate which would then be in effect had the adjustment upon the issuance of such rights or warrants been made on the basis of the actual number of shares of Series A Common Stock (or Series A Convertible Securities) issued upon the exercise of such rights or warrants (or the conversion of such Series A Convertible Securities); but such subsequent adjustment shall not affect the number of shares of Series A Common Stock issued upon the conversion of any share of Series A Preferred Stock prior to the date such subsequent adjustment is made. Any determination of the current market price per share of Series A Common Stock under this Section shall be in accordance with Article IV, Section C.4(n).

(ii) In case the Corporation shall after the Issue Date issue any rights or warrants to all holders of shares of Series C Common Stock entitling them (for a period expiring not more than 45 days after the record date for the determination of stockholders entitled to receive such rights or warrants) to subscribe for or purchase shares of Series C Common Stock (or Series C Convertible Securities) at a price per share of Series C Common Stock (or having an initial exercise price or conversion price per share of Series C Common Stock) less than the then current market price per share of Series C Common Stock on such record date, the number of shares of Series C Common Stock into which each share of Series C Preferred Stock shall thereafter be convertible shall be determined by multiplying the number of shares of Series C Common Stock into which such share of Series C Preferred Stock was theretofore convertible immediately prior to such record date by a fraction, the numerator of which shall be the number of shares of Series C Common Stock outstanding on such record date plus the number of additional shares of Series C Common Stock offered for subscription or purchase (or into which the Series C Convertible Securities so offered are initially convertible) and of which the denominator shall be the number of shares of Series C Common Stock outstanding on such record date plus the number of shares of Series C Common Stock, which the aggregate offering price of the total number of shares of Series C Common Stock so offered (or the aggregate initial conversion or exercise price of the Series C Convertible Securities so offered) would purchase at the then current market price per share of Series C Common Stock on such record date. Such adjustment shall be made successively whenever any such rights or warrants are issued and shall become effective immediately after the record date for the determination of stockholders entitled to receive such rights or warrants. In the event that all of the shares of Series C Common Stock (or all of the Series C Convertible Securities) subject to such rights or warrants have not been issued when such rights or warrants expire (or, in the case of rights or warrants to purchase Series C Convertible Securities which have been exercised, all of the shares of Series C Common Stock issuable upon conversion of such Series C Convertible Securities have not been issued prior to the expiration of the conversion right thereof), then the Series C Conversion Rate shall be readjusted retroactively to be the Series C Conversion Rate which would then be in effect had the adjustment upon the issuance of such rights or warrants been made on the basis of the actual number of shares of Series C Common Stock (or Series C

---

Convertible Securities) issued upon the exercise of such rights or warrants (or the conversion of such Series C Convertible Securities); but such subsequent adjustment shall not affect the number of shares of Series C Common Stock issued upon the conversion of any share of Series C Preferred Stock prior to the date such subsequent adjustment is made. Any determination of the current market price per share of Series C Common Stock under this Section shall be in accordance with Article IV, Section C.4(n).

(e) Adjustments for Other Distributions and Dividends.

(i) In case the Corporation shall distribute after the Issue Date to all holders of shares of Series A Common Stock (including any such distribution made in connection with a merger in which the Corporation is the continuing corporation, other than a merger to which Article IV, Section C.4(f) is applicable) any securities, evidences of its indebtedness or assets (other than cash dividends or with respect to stock dividends, subdivisions, combinations or reclassifications on the Series A Common Stock in respect of which an adjustment is made pursuant to Article IV, Section C.4(c)(i) hereof) or rights or warrants to purchase shares of Series A Common Stock or securities convertible into shares of Series A Common Stock (excluding a Rights Dividend and those referred to in Article IV, Section C.4(d)(i) above), then in each such case the number of shares of Series A Common Stock into which each share of Series A Preferred Stock shall thereafter be convertible shall be determined by multiplying the number of shares of Series A Common Stock into which such share was theretofore convertible immediately prior to the record date for the determination of stockholders entitled to receive the distribution by a fraction, the numerator of which shall be the then current market price per share of Series A Common Stock on such record date and the denominator of which shall be such current market price per share of Series A Common Stock less the fair market value on such record date (as determined in good faith by the Board of Directors of the Corporation, whose good faith determination shall be conclusive) of the portion of the securities, assets or evidences of indebtedness or rights or warrants so to be distributed applicable to one share of Series A Common Stock. Such adjustment shall be made successively whenever any such distribution is made and shall become effective immediately after the record date for the determination of stockholders entitled to receive such distribution is made. Any determination of the current market price per share of Series A Common Stock under this Section shall be in accordance with Article IV, Section C.4(n).

(ii) In case the Corporation shall distribute after the Issue Date to all holders of shares of Series C Common Stock (including any such distribution made in connection with a merger in which the Corporation is the continuing corporation, other than a merger to which Article IV, Section C.4(f) is applicable) any securities, evidences of its indebtedness or assets (other than cash dividends or with respect to stock dividends, subdivisions, combinations or reclassifications on the Series C Common Stock in respect of which an adjustment is made pursuant to Article IV, Section C.4(c)(ii) hereof) or rights or warrants to purchase shares of Series C Common Stock or securities convertible into shares of Series C Common Stock (excluding a Rights Dividend and those referred to in Article IV, Section C.4(d)(ii) above), then in each such case the number of shares of Series C Common Stock into which each share of Series C Preferred Stock shall thereafter be convertible shall be determined by multiplying the number of shares of Series C Common Stock into which such

---

share was theretofore convertible immediately prior to the record date for the determination of stockholders entitled to receive the distribution by a fraction, the numerator of which shall be the then current market price per share of Series C Common Stock on such record date and the denominator of which shall be such current market price per share of Series C Common Stock less the fair market value on such record date (as determined in good faith by the Board of Directors of the Corporation, whose good faith determination shall be conclusive) of the portion of the securities, assets or evidences of indebtedness or rights or warrants so to be distributed applicable to one share of Series C Common Stock. Such adjustment shall be made successively whenever any such distribution is made and shall become effective immediately after the record date for the determination of stockholders entitled to receive such distribution is made. Any determination of the current market price per share of Series C Common Stock under this Section shall be in accordance with Article IV, Section C.4(n).

(f) Adjustments for Reclassification, Merger, Etc. In case of any reclassification or change in the Series A Common Stock, Series B Common Stock or Series C Common Stock (other than any reclassification or change referred to in Article IV, Section C.4(c) and other than a change in par value) or in case of any consolidation of the Corporation with any other corporation or any merger of the Corporation into another corporation or of another corporation into the Corporation (other than a merger in which the Corporation is the continuing corporation and which does not result in any reclassification or change (other than a change in par value or any reclassification or change to which Article IV, Section C.4(c) is applicable) in the outstanding Series A Common Stock, Series B Common Stock or Series C Common Stock), or in case of any sale or transfer to another corporation or entity (other than by mortgage or pledge) of all or substantially all of the properties and assets of the Corporation, in any such case after the Issue Date, the Corporation (or its successor in such consolidation or merger) or the purchaser of such properties and assets shall make appropriate provision so that the holder of a share of the Convertible Preferred Stock shall have the right thereafter to convert such share into the kind and amount of shares of stock and other securities and property that such holder would have owned immediately after such reclassification, change, consolidation, merger, sale or transfer if such holder had converted such share immediately prior to the effective date of such reclassification, change, consolidation, merger, sale or transfer (assuming for this purpose (to the extent applicable) that such holder failed to exercise any rights of election and received per share the kind and amount of shares of stock and other securities and property received per share by a plurality of the non-electing shares), and the holders of the Convertible Preferred Stock shall have no other conversion rights under these provisions; provided, that effective provision shall be made, in the articles or certificate of incorporation of the resulting or surviving corporation or otherwise or in any contracts of sale or transfer, so that the provisions set forth herein for the protection of the conversion rights of the Convertible Preferred Stock shall thereafter be made applicable, as nearly as reasonably may be to any such other shares of stock and other securities and property deliverable upon conversion of the Convertible Preferred Stock remaining outstanding or other Convertible Preferred Stock or other Convertible Securities received by the holders of Convertible Preferred Stock in place thereof; and provided, further, that any such resulting or surviving corporation or purchaser shall expressly assume the obligation to deliver, upon the exercise of the conversion privilege, such shares, securities or property as the holders of the Convertible Preferred Stock remaining outstanding, or other Convertible Preferred Stock or other Convertible Securities received by the holders in place

---

thereof, shall be entitled to receive pursuant to the provisions hereof, and to make provisions for the protection of the conversion rights as above provided.

(g) Notice of Adjustments in Conversion Rates.

(i) Whenever the Series A Conversion Rate or the conversion privilege shall be adjusted as provided in Article IV, Sections C.4(c)(i), (d)(i), (e)(i) or (f), the Corporation shall promptly cause a notice to be mailed to the holders of record of the Series A Preferred Stock describing the nature of the event requiring such adjustment and the Series A Conversion Rate in effect immediately thereafter, the kind and amount of stock or other securities or property into which the Series A Preferred Stock shall be convertible after such event. In case of an adjustment pursuant to Article IV, Section C.4(e)(i), such notice shall enclose the resolution of the Board of Directors of the Corporation making the fair market value determination of the Series A Common Stock for the purpose of calculating the Series A Conversion Rate. Where appropriate, such notice may be given in advance and included as a part of a notice required to be mailed under the provisions of Article IV, Section C.4(i).

(ii) Whenever the Series C Conversion Rate or the conversion privilege shall be adjusted as provided in Article IV, Sections C.4(c)(ii), (d)(ii), (e)(ii) or (f), the Corporation shall promptly cause a notice to be mailed to the holders of record of the Series C Preferred Stock describing the nature of the event requiring such adjustment, the Series C Conversion Rate in effect immediately thereafter and the kind and amount of stock or other securities or property into which the Series C Preferred Stock shall be convertible after such event. In case of an adjustment pursuant to Article IV, Section C.4(e)(ii), such notice shall enclose the resolution of the Board of Directors of the Corporation making the fair market value determination of the Series C Common Stock for the purpose of calculating the Series C Conversion Rate. Where appropriate, such notice may be given in advance and included as a part of a notice required to be mailed under the provisions of Article IV, Section C.4(i).

(h) Calculation and Timing of Adjustments. The Corporation may, but shall not be required to, (i) make any adjustment of the Series A Conversion Rate if such adjustment would require an increase or decrease of less than 1% in the Series A Conversion Rate, or (ii) make any adjustment of the Series C Conversion Rate if such adjustment would require an increase or decrease of less than 1% in the Series C Conversion Rate; provided, however, that, in each case, any adjustments which by reason of this Article IV, Section C.4(h) are not required to be made shall be carried forward and taken into account in any subsequent adjustment. All calculations under this Article IV, Section C.4(h) shall be made to the nearest 1/100th of a share. In any case in which this Article IV, Section C.4(h) shall require that an adjustment shall become effective immediately after a record date for such event, the Corporation may defer until the occurrence of such event (x) issuing to the holder of any shares of Convertible Preferred Stock converted after such record date and before the occurrence of such event the additional shares of Series A Common Stock or Series C Common Stock, as applicable, or other capital stock issuable upon such conversion by reason of the adjustment required by such event over and above the shares of Series A Common Stock or Series C Common Stock, as applicable, or other capital stock issuable upon such conversion before giving effect to such adjustment and (y) paying to such holder cash in lieu of any fractional interest to which such holder is entitled

---

pursuant to Article IV, Section C.4(n); provided, however, that, if requested by such holder, the Corporation shall deliver to such holder a due bill or other appropriate instrument evidencing such holder's right to receive such additional shares of Series A Common Stock or Series C Common Stock, as applicable, or other capital stock, and such cash, upon the occurrence of the event requiring such adjustment.

(i) Notice of Certain Events. In case at any time:

(i) the Corporation shall take any action which would require an adjustment in the Conversion Rate pursuant to Article IV, Section C.4;

(ii) there shall be any capital reorganization or reclassification of the Common Stock (other than a change in par value), or any consolidation or merger to which the Corporation is a party and for which approval of any stockholders of the Corporation is required, or any sale, transfer or lease of all or substantially all of the properties and assets of the Corporation, or a tender offer for shares of Common Stock representing at least a majority of the total voting power represented by the outstanding shares of Common Stock which has been recommended by the Board of Directors as being in the best interests of the holders of Common Stock; or

(iii) there shall be a voluntary or involuntary dissolution, liquidation or winding up of the Corporation;

then, in any such event, the Corporation shall give written notice to the holders of the Convertible Preferred Stock at their respective addresses as the same appear on the books of the Corporation, at least twenty days (or ten days in the case of a recommended tender offer as specified in clause (ii) above) prior to any record date for such action, dividend or distribution or the date as of which it is expected that holders of Common Stock of record shall be entitled to exchange their shares of Common Stock for securities or other property, if any, deliverable upon such reorganization, reclassification, consolidation, merger, sale, transfer, lease, tender offer, dissolution, liquidation or winding up, during which period such holders may exercise their conversion rights; provided, however, that any notice required by any event described in clause (ii) of this Article IV, Section C.4(i) shall be given in the manner and at the time that such notice is given to the holders of Common Stock. Without limiting the obligations of the Corporation to provide notice of corporate actions hereunder, the failure to give the notice required by this Article IV, Section C.4(i) or any defect therein shall not affect the legality or validity of any such corporate action of the Corporation or the vote upon such action.

(j) Procedures for Conversion. Before any holder of Convertible Preferred Stock shall be entitled to convert the same into Series A Common Stock or Series C Common Stock, as applicable (or, in the case of the Mandatory Conversion, before any holder of Convertible Preferred Stock so converted shall be entitled to receive certificate(s) evidencing the shares of Series A Common Stock, Series C Common Stock or other securities or property, as applicable, issuable upon such conversion), such holder shall surrender the certificate(s) for such Convertible Preferred Stock at the office of the Corporation or at the office of the transfer agent for the Convertible Preferred Stock, which certificate(s), if the Corporation shall so request, shall

---

be duly endorsed to the Corporation or in blank or accompanied by proper instruments of transfer to the Corporation or in blank (such endorsements or instruments of transfer to be in form satisfactory to the Corporation), and shall give written notice to the Corporation at said office that such holder elects to convert all or a part of the shares represented by said certificate(s) (or, in the case of the Mandatory Conversion, that such holder is surrendering the same) in accordance with the terms of this Article IV, Section C.4(j), and shall state in writing therein the name or names in which such holder wishes the certificate(s) for Series A Common Stock, Series C Common Stock or other securities or property, as applicable, to be issued. Every such notice of election to convert shall constitute a contract between the holder of such Convertible Preferred Stock and the Corporation, whereby the holder of such Convertible Preferred Stock shall be deemed to subscribe for the amount of Series A Common Stock, Series C Common Stock or other securities or property, as applicable, which such holder shall be entitled to receive upon conversion of the number of share(s) of Convertible Preferred Stock to be converted, and, in satisfaction of such subscription, to deposit the share(s) of Convertible Preferred Stock to be converted, and thereby the Corporation shall be deemed to agree that the surrender of the shares of Convertible Preferred Stock to be converted shall constitute full payment of such subscription for Series A Common Stock or Series C Common Stock, as applicable, to be issued upon such conversion. The Corporation will as soon as practicable after such deposit of the certificate(s) for Convertible Preferred Stock, accompanied by the written notice and the statement above prescribed, issue and deliver at the office of the Corporation or of said transfer agent to the Person for whose account such Convertible Preferred Stock was so surrendered, or to his nominee(s) or, subject to compliance with applicable law, transferee(s), certificate(s) for the number of full share(s) of Series A Common Stock or Series C Common Stock, as applicable, to which such holder shall be entitled, together with cash in lieu of any fraction of a share as hereinafter provided together with an amount in cash equal to the full amount of any cash dividend declared (or required to be declared) on the Convertible Preferred Stock which, as of the date of such conversion, remains unpaid (provided, that the Corporation will use commercially reasonable efforts to make such delivery within two Business Days after such deposit and such notice and statement). If surrendered certificate(s) for Convertible Preferred Stock are converted only in part, the Corporation will issue and deliver to the holder, or to his nominee(s), without charge therefor, new certificate(s) representing the aggregate of the unconverted shares. Such conversion shall be deemed to have been made as of the date of such surrender of the Convertible Preferred Stock to be converted or date of the event that gives rise to the Mandatory Conversion; and the Person(s) entitled to receive the Series A Common Stock or Series C Common Stock, as applicable, issuable upon conversion of such Convertible Preferred Stock shall be treated for all purposes as the record holder or holders of such Series A Common Stock or Series C Common Stock, as applicable, on such date.

(k) Transfer Taxes. The issuance of certificate(s) for share(s) of Series A Common Stock or Series C Common Stock, as applicable, upon conversion of share(s) of Convertible Preferred Stock shall be made without charge for any issue, stamp or other similar tax in respect of such issuance; provided, however, if any such certificate is to be issued in a name other than that of the registered holder of the share(s) of Convertible Preferred Stock converted, the Person(s) requesting the issuance thereof shall pay to the Corporation the amount of any tax which may be payable in respect of any transfer involved in such issuance or shall establish to the satisfaction of the Corporation that such tax has been paid.

---

(l) Reservation of Shares. The Corporation shall reserve and keep available at all times thereafter, solely for the purpose of issuance upon conversion of the outstanding shares of Convertible Preferred Stock, such number of shares of Series A Common Stock and Series C Common Stock as shall be issuable upon the conversion of all outstanding shares of Convertible Preferred Stock; provided, that nothing contained herein shall be construed to preclude the Corporation from satisfying its obligations in respect of the conversion of the outstanding shares of Convertible Preferred Stock by delivery of shares of Series A Common Stock or Series C Common Stock, as applicable, which are held in the treasury of the Corporation. The Corporation shall take all such corporate and other actions as from time to time may be necessary to insure that all shares of Series A Common Stock and Series C Common Stock issuable upon conversion of shares of Convertible Preferred Stock at the applicable Conversion Rate in effect from time to time will, upon issue, be duly and validly authorized and issued, fully paid and nonassessable and free of any preemptive or similar rights.

(m) Retirement of Convertible Preferred Stock. All shares of Convertible Preferred Stock received by the Corporation upon conversion thereof shall be retired and shall not be reissued

(n) Payment in Lieu of Fractional Shares. The Corporation shall not be required to issue fractional shares of Series A Common Stock or Series C Common Stock, as applicable, or scrip upon conversion of the Convertible Preferred Stock. As to any final fraction of a share of Series A Common Stock or Series C Common Stock, as applicable, which a holder of one or more shares of Convertible Preferred Stock would otherwise be entitled to receive upon conversion of such shares in the same transaction, the Corporation shall make a cash payment in respect of such final fraction in an amount equal to the same fraction of the current market price of a full share of Series A Common Stock or Series C Common Stock as applicable, as determined in good faith by the Board of Directors. For the purpose of any computation of current market price under this Restated Certificate, current market price of any security on any date shall be deemed to be the average of the daily closing prices per share of such security for the 20 consecutive Trading Days immediately prior to such date or, with respect to any adjustment in conversion rights as set forth herein, the earlier of the date in question and the date immediately prior to the Ex Date; provided, however, that if any other transaction occurs requiring an adjustment in the conversion rights as set forth herein, and the Ex Date for such other transaction falls during such 20 consecutive Trading Day period, then, and in each such case, the current per share market price shall be appropriately adjusted. The closing price for each day shall be the last sale price, regular way, or, in case no such sale takes place on such day, the average of the closing bid and asked prices, regular way, in either case as reported on the principal national securities exchange on which the security is listed or admitted to trading or, if the security is not listed or admitted to trading on any national securities exchange, the last quoted price or, if not so quoted, the average of the high bid and low asked prices in the over-the-counter market, as reported by NASDAQ or such other system then in use, or, if on any such date the security is not quoted by any such organization, the average of the closing bid and asked prices as furnished by a professional market maker making a market in the security selected by the Board of Directors of the Corporation. "Trading Day" means a day on which the principal national securities exchange on which the security is listed or admitted to trading is open for the transaction of business or, if the security is not listed or admitted to trading on any national

---

securities exchange, a Business Day. “Ex Date” means (i) when used with respect to any dividend, distribution or issuance, the first date on which the Common Stock trades regular way on the relevant exchange or in the relevant market from which the closing price is obtained without the right to receive such dividend, distribution or issuance, (ii) when used with respect to any subdivision or combination of shares of Common Stock, the first date on which the Common Stock trades regular way on such exchange or in such market after the time at which such subdivision or combination becomes effective, (iii) when used with respect to any tender or exchange offer, the first date on which the Common Stock trades regular way on such exchange or in such market after such tender or exchange offer expires and (iv) when used with respect to any other transaction, the date of consummation of such transaction.

(o) Regulatory Matters. If any shares of Series A Common Stock or Series C Common Stock, which would be issuable upon conversion of shares of Convertible Preferred Stock require the approval of any governmental authority before such shares may be issued upon conversion, the Corporation, at the request and expense of the holder(s) of such Convertible Preferred Stock, will use its reasonable best efforts to cooperate with the holder(s) of such Convertible Preferred Stock to obtain such approvals.

#### 5. Voting Rights.

(a) General Voting Rights. In connection with any matter as to which the holders of Series A Common Stock and Series B Common Stock are entitled to vote other than the election of Common Stock Directors, each share of Series A Preferred Stock issued and outstanding as of the record date for such meeting shall have (and the holder of record thereof shall be entitled to cast) the number of votes equal to the number of votes such holder would have been entitled to cast had it converted its shares of Series A Preferred Stock into shares of Series A Common Stock immediately prior to the record date for the determination of stockholders entitled to vote upon such matter. In connection with any matter as to which the holders of Series C Common Stock are entitled to vote pursuant to this Restated Certificate, each share of Series C Preferred Stock issued and outstanding as of the record date for such meeting shall have (and the holder of record thereof shall be entitled to cast) the number of votes equal to the number of votes such holder would have been entitled to cast had it converted its shares of Series C Preferred Stock into shares of Series C Common Stock immediately prior to the record date for the determination of stockholders entitled to vote upon such matter. Except as provided in this Article IV, Section C.5 and Article IV, Section B.1 and except as otherwise may be required by law or Series Preferred Stock Designation (as defined below) of any series of Series Preferred Stock, the holders of Common Stock, the holders of Convertible Preferred Stock and the holders of any other series of Series Preferred Stock shall be entitled to notice of and to attend any, meeting of stockholders and to vote together as a single class.

#### (b) Election of Series A Preferred Stock Directors.

(i) Until such time as a Series A Mandatory Conversion shall be deemed to have occurred pursuant to Article IV, Section C.4(a)(ii), the holders of the Series A Preferred Stock shall have the exclusive right to elect three members of the Board of Directors (each such director elected by the holders of the Series A Preferred Stock is hereinafter referred

---

to as a “Series A Preferred Stock Director”). Notwithstanding the foregoing provisions of this Section, so long as the applicable rules and regulations of the NASDAQ or the Commission (in each case, as may be amended from time to time) require that the Board of Directors or any committee thereof, include as members thereof, directors who qualify as Independent Directors, then two of the persons proposed, designated or nominated in writing or otherwise by the holders of the Series A Preferred Stock to serve as a Series A Preferred Stock Director will, in addition to any other qualifications as a director imposed by the DGCL, qualify as Independent Directors, as determined by the then current Board, acting in good faith.

(ii) Each Series A Preferred Stock Director will be that person elected, by the written consent of the holders of a majority of the outstanding shares of Series A Preferred Stock given in accordance with Article IV, Section C.5(d) below or by the affirmative vote of the holders of a majority of the outstanding shares of Series A Preferred Stock at a meeting called for that purpose.

(iii) A Series A Preferred Stock Director may be removed from office (x) without Cause upon the affirmative vote of the holders of at least a majority of the outstanding voting shares of the Series A Preferred Stock entitled to vote upon the election of directors, voting together as a separate class and (y) may be removed with Cause as provided in Article V, Section C below. Any vacancy in the office of a Series A Preferred Stock Director occurring during the effectiveness of the applicable provisions of Article IV, Section C.5(b)(i) shall be filled solely by the written consent of the holders of a majority of the outstanding shares of the Series A Preferred Stock given in accordance with Article IV, Section C.5(d) below or by the affirmative vote of the holders of a majority of the outstanding shares of Series A Preferred Stock at a meeting called for that purpose. Any director elected to fill a vacancy shall and serve the same remaining term as that of his or her predecessor and until his or her successor has been chosen and has qualified.

(c) Special Class Vote Matters. Until such time as a Series A Mandatory Conversion shall be deemed to have occurred pursuant to Article IV, Section C.4(a)(ii), neither the Corporation nor any of its Subsidiaries will take any of the following actions (any such action, a “Special Class Vote Matter”) following the Issue Date without having obtained the affirmative vote or written consent of the holders of a majority of the outstanding shares of the Series A Preferred Stock given in accordance with Article IV, Section C.5(d) below or by the affirmative vote of the holders of a majority of the outstanding shares of the Series A Preferred Stock at a meeting called for that purpose:

(i) any increase in the number of members of the Board of Directors to a number of directors in excess of 11;

(ii) any fundamental change in the business of the Corporation and its Subsidiaries from the business of the Corporation and its Subsidiaries as conducted as of the Issue Date or the making of any investment, establishment of joint venture, or any acquisition, in each case, constituting a material departure from the current lines of business of the Corporation and its Subsidiaries (other than any such change, investment, joint venture or acquisition that has been approved in accordance with Article IV, Section C.5(c)(vi) below);

---

(iii) the material amendment, alteration or repeal of any provision of this Restated Certificate or the Bylaws (as defined in Article V, Section F) (or the organizational documents of any Subsidiary of the Corporation) or the addition or insertion of other provisions therein, other than (i) any amendments to the articles or certificate of incorporation, bylaws or organizational documents of any Wholly-Owned Subsidiary or (ii) an amendment to or modification of this Restated Certificate that is necessary in order to implement any action that has been otherwise approved by the holders of a majority of the outstanding shares of the Series A Preferred Stock;

(iv) any transaction (a “Related Party Transaction”) between (x) the Corporation or any of its Subsidiaries, on the one hand, and (y) any Related Party of the Corporation, on the other hand, including the amendment of any agreement between the Corporation or any of its Subsidiaries and any Related Party of the Corporation as in effect on the Issue Date; provided, however, that any transaction between the Corporation or any of its Subsidiaries and a Related Party of the Corporation will not constitute a Related Party Transaction if the terms and conditions of such transaction, taken as a whole, are no more favorable to such Related Party than the terms and conditions made available to similarly situated third parties, or, if there are no such similarly situated third parties, such transaction is otherwise on arm’s length terms;

(v) the merger, consolidation or other business combination by the Corporation into or with any other entity, other than any transaction involving only the Corporation and/or one or more direct or indirect Wholly-Owned Subsidiaries of the Corporation; provided, however, that the provisions of this Section will not apply to the Merger or apply to transactions that have been approved in accordance with Article IV, Sections C.5(c)(vi) and (vii) below;

(vi) the acquisition by the Corporation or any of its Subsidiaries of any assets or properties (including stock or other equity interests of a third party) in one transaction or a series of related transactions, which assets or properties have an aggregate value or funding commitment by the Corporation in excess of \$250 million;

(vii) the disposition (by way of sale, distribution to stockholders of the Corporation of any securities or assets, or any other means) by the Corporation or any of its Subsidiaries of any assets or properties (including stock or other equity interests of a third party) in one transaction or a series of related transactions, which assets or properties have an aggregate value in excess of \$250 million;

(viii) the authorization, issuance, reclassification, redemption, exchange, subdivision or recombination of any equity securities of the Corporation or its material Subsidiaries, other than: (1) any issuance of equity securities to the Corporation or its Subsidiaries of any entity if subsequent to such issuance, such entity would be a direct or indirect Wholly-Owned Subsidiary of the Corporation, provided, that such Wholly-Owned Subsidiary may not Transfer such equity securities to any Person other than the Corporation or another Wholly-Owned Subsidiary; (2) any issuance of equity securities in connection with a transaction that has been approved in accordance with Article IV, Sections C.5(c)(v) or (vi) above or in

---

connection with an acquisition (or series of related acquisitions) with respect to which the approval of the holders of the Series A Preferred Stock is not otherwise required, provided, that none of the Corporation or any of its Subsidiaries pays consideration consisting of or including capital stock of the Corporation or any of its material Subsidiaries in any such transaction that provides (other than as required by the DGCL) the holders of such security with voting rights superior in any respect to the voting rights of the holders of the Series A Common Stock, on a per share basis; (3) pursuant to the terms of the Company Rights Plan or the Rights distributed pursuant thereto; (4) in connection with the exercise of any stock options or stock appreciation rights of the Corporation or any of its Subsidiaries outstanding immediately following the effectiveness of the Merger; or (5) pursuant to any equity compensation plan of the Corporation approved by the holders of the Series A Preferred Stock;

(ix) any action resulting in the voluntary liquidation, dissolution or winding up of the Corporation or any material Subsidiary of the Corporation;

(x) any substantial change in Discovery's service distribution policy and practices from the service distribution policy and practices of Discovery and its Subsidiaries as of the Issue Date;

(xi) the declaration or payment of any dividend on, or the making of any distribution to holders of equity securities of the Corporation or any Subsidiary of the Corporation, other than (1) cash dividends payable out of current year earnings; (2) dividends or distributions payable or made in shares of Common Stock or other securities of the Corporation, subject to the limitations otherwise provided for herein; (3) dividends or distributions to the Corporation or any Wholly-Owned Subsidiary of the Corporation that are declared and paid by a Wholly-Owned Subsidiary of the Corporation; and (4) the Rights Dividend;

(xii) the incurrence of Indebtedness after the Issue Date, by or on behalf of the Corporation or any of its Subsidiaries, if (1) such Indebtedness, together with all other Indebtedness of the Corporation and its Consolidated Group, would exceed four (4) times the Cash Flow of the Corporation and its Consolidated Group for the last four (4) consecutive calendar quarters (the "Annualized Cash Flow") or (2) the Debt Service for the next twelve (12) calendar months related to such Indebtedness, together with the Debt Service for the next twelve (12) calendar months for all other Indebtedness of the Corporation and its Consolidated Group, would exceed sixty-six percent (66%) of the Annualized Cash Flow of the Corporation and its Consolidated Group;

(xiii) the appointment or removal of the Chairman of the Board of Directors of the Corporation and the appointment or removal of the Chief Executive Officer of the Corporation;

(xiv) any offering of any security of the Corporation or any of its Subsidiaries that would constitute a "public offering" within the meaning of the Securities Act of 1933, other than, (1) in connection with an acquisition (or series of related acquisitions) with respect to which the approval of the holders of the Series A Preferred Stock is not otherwise required; (2) an offering of securities pursuant to the Company Rights Plan; or (3) in connection

---

with any equity compensation plan of the Corporation or any of its Subsidiaries in effect as of the Issue Date or approved by the holders of the Series A Preferred Stock; provided, that, in the case of (1) of this subsection, none of the Corporation or any of its Subsidiaries pays consideration consisting of capital stock of the Corporation or any of its Subsidiaries in any such transaction that provides (other than as required by the DGCL) the holders of such security with voting rights superior in any respect to the voting rights of the holders of the Series A Common Stock, on a per share basis; and

(xv) the adoption of the Annual Business Plan of the Corporation and any material deviation therefrom.

(d) Action By Written Consent. With respect to actions by the holders of the Series A Preferred Stock upon those matters on which such holders are entitled to vote as a separate class (including but not limited to the Special Class Vote Matters), such actions may be taken without a meeting, without prior notice and without a vote, if a consent or consents in writing, setting forth the action so taken, shall be signed by at least a majority of the outstanding shares of Series A Preferred Stock, and shall be delivered to the Corporation as provided in the DGCL. Notice shall be given in accordance with the applicable provisions of the DGCL of the taking of corporate action without a meeting by less than unanimous written consent.

6. Waiver. Unless otherwise provided in this Restated Certificate, any provision which, for the benefit of the holders of the Convertible Preferred Stock or any series thereof, prohibits, limits or restricts actions by the Corporation, or imposes obligations on the Corporation, may be waived in whole or in part, or the application of all or any part of such provision in any particular circumstance or generally may be waived, in each case only pursuant to the consent of the holders of a majority (or such greater percentage thereof as may be required by applicable law or any applicable rules of any national securities exchange) of the outstanding shares of Convertible Preferred Stock, or the series thereof so affected, consenting together as a single class. Any such waiver shall be binding on all holders, including any subsequent holders, of the Convertible Preferred Stock.

7. Method of Giving Notices. Any notice required or permitted hereby to be given to the holders of shares of Convertible Preferred Stock shall be deemed duly given if deposited in the United States mail, first class mail, postage prepaid, and addressed to each holder of record at the holder's address appearing on the books of the Corporation or supplied by the holder in writing to the Corporation for the purpose of such notice.

8. Exclusion of Other Rights. Except as provided in the Bylaws of the Corporation or as may otherwise be required by law and except for the equitable rights and remedies which may otherwise be available to holders of Convertible Preferred Stock, the shares of Convertible Preferred Stock shall not have any designations, preferences, limitations or relative rights other than those specifically set forth herein.

9. Heading of Subdivisions. The headings of the various subdivisions hereof are for convenience of reference only and shall not affect the interpretation of any of the provisions hereof.

---

## SECTION D

### SERIES PREFERRED STOCK

1. The Series Preferred Stock may be divided and issued in one or more series from time to time, with such powers, designations, preferences and relative, participating, optional or other rights, and qualifications, limitations or restrictions thereof, as shall be stated and expressed in a resolution or resolutions providing for the issue of each such series adopted by the Board of Directors (a "Series Preferred Stock Designation").

2. The Board of Directors, in the Series Preferred Stock Designation with respect to a series of Series Preferred Stock (a copy of which shall be filed as required by law), shall, without limitation of the foregoing, be authorized to fix the following with respect to such series of Series Preferred Stock:

(a) the distinctive serial designations and the number of authorized shares of such series, which may be increased or decreased from time to time, but not below the number of shares thereof then outstanding, by a certificate made, signed and filed as required by law (except where otherwise provided in a Series Preferred Stock Designation);

(b) the dividend rate or amounts, if any, for such series, the date or dates from which dividends on all shares of such series shall be cumulative, if dividends on shares of such series shall be cumulative, and the relative preferences or rights of priority, if any, or participation, if any, with respect to payment of dividends on shares of such series;

(c) the rights of the shares of such series in the event of any voluntary or involuntary liquidation, dissolution or winding up of the Corporation, if any, and the relative preferences or rights of priority, if any, of payment of shares of such series;

(d) the right, if any, of the holders of such series to convert or exchange such shares into or for other classes or series of a class of stock or indebtedness of the Corporation or of another Person, and the terms and conditions of such conversion or exchange, including provision for the adjustment of the conversion or exchange rate in such events as the Board of Directors may determine;

(e) the voting powers, if any, of the holders of such series;

(f) the terms and conditions, if any, for the Corporation to purchase or redeem shares of such series; and

(g) any other relative rights, powers, preferences and limitations, if any, of such series.

3. The Board of Directors is hereby expressly authorized to exercise its authority with respect to fixing and designating various series of the Series Preferred Stock and determining the relative rights, powers and preferences, if any, thereof to the full extent

---

permitted by applicable law, subject to any stockholder vote that may be required by this Restated Certificate. All shares of any one series of the Series Preferred Stock shall be alike in every particular. Except to the extent otherwise expressly provided in the Series Preferred Stock Designation for a series of Series Preferred Stock, the holders of shares of such series shall have no voting rights except as may be required by the laws of the State of Delaware. Further, unless otherwise expressly provided in the Series Preferred Stock Designation for a series of Series Preferred Stock, no consent or vote of the holders of shares of Series Preferred Stock or any series thereof shall be required for any amendment to this Restated Certificate that would increase the number of authorized shares of Series Preferred Stock or the number of authorized shares of any series thereof or decrease the number of authorized shares of Series Preferred Stock or the number of authorized shares of any series thereof (but not below the number of authorized shares of Series Preferred Stock or such series, as the case may be, then outstanding).

4. Except as may be provided by the Board of Directors in a Series Preferred Stock Designation or by law, shares of any series of Series Preferred Stock that have been redeemed (whether through the operation of a sinking fund or otherwise) or purchased by the Corporation, or which, if convertible or exchangeable, have been converted into or exchanged for shares of stock of any other class or classes shall have the status of authorized and unissued shares of Series Preferred Stock and may be reissued as a part of the series of which they were originally a part or may be reissued as part of a new series of Series Preferred Stock to be created by a Series Preferred Stock Designation or as part of any other series of Series Preferred Stock.

## **ARTICLE V**

### **DIRECTORS**

#### **SECTION A**

##### **NUMBER OF DIRECTORS**

The governing body of the Corporation shall be a Board of Directors and the number of directors of the Corporation shall be determined in accordance with the Bylaws of the Corporation. The Board of Directors immediately following the effectiveness of the Merger shall be comprised of the persons listed on Schedule 2.03(f) to the Transaction Agreement. Election of directors need not be by written ballot.

1. Series A Preferred Stock Directors. The Series A Preferred Stock Directors shall be elected by the holders of the Series A Preferred Stock, subject to, and in the manner provided in, Article IV, Section C.5(b) of this Restated Certificate. In the event the holders of Series A Preferred Stock cease to have the right to elect Series A Preferred Stock Directors in accordance with Article IV, Section C.5(b), any Series A Preferred Stock Director in office at such time shall automatically be removed as a member of the Board of Directors and the number of directors constituting the Board of Directors at such time shall automatically be reduced by the number of Series A Preferred Stock Directors immediately prior to such removal. For the avoidance of doubt, the provisions relating to classification and appointment of directors set forth in Article V,

---

Sections B and D below shall apply only to the Common Stock Directors and not the Series A Preferred Stock Directors. The Series A Preferred Stock Directors immediately after the effectiveness of the Merger shall be as provided in Schedule 2.03(f) to the Transaction Agreement.

2. Common Stock Directors. Directors of the Corporation, other than (i) the Series A Preferred Stock Directors, and (ii) directors elected by the holders of any series of Series Preferred Stock entitled to elect a separate class of directors pursuant to the applicable Series Preferred Stock Designation, shall be elected, by the holders of the Common Stock, subject to, and in the manner provided in, this Article V, and shall be designated as "Common Stock Directors."

## **SECTION B**

### **CLASSIFICATION OF THE BOARD**

Except as otherwise fixed by or pursuant to the provisions of (i) Article IV, Section C hereof relating to the rights of the holders of Series A Preferred Stock to elect the Series A Preferred Stock Directors who are not required to be classified, and (ii) the Series Preferred Stock Designation in respect of any series of Series Preferred Stock the holders of which are entitled to separately elect additional directors, which additional directors are not required to be classified pursuant to the terms of such series of Series Preferred Stock, the Common Stock Directors shall be divided into three classes: Class I, Class II and Class III. Each class shall consist, as nearly as possible, of a number of directors equal to one-third (1/3) of the number of Common Stock Directors. The Common Stock Directors as of immediately following the effectiveness of the Merger shall be designated into classes as set forth on Schedule 2.03(f) to the Transaction Agreement. The term of office of the initial Class I directors shall expire at the annual meeting of stockholders in 2009; the term of office of the initial Class II directors shall expire at the annual meeting of stockholders in 2010; and the term of office of the initial Class III directors shall expire at the annual meeting of stockholders in 2011. At each annual meeting of stockholders of the Corporation the successors of that class of directors whose term expires at that meeting shall be elected to hold office for a term expiring at the annual meeting of stockholders held in the third year following the year of their election. The directors of each class will hold office until their respective successors are elected and qualified or until such director's earlier death, resignation or removal.

## **SECTION C**

### **REMOVAL OF DIRECTORS**

Subject to the rights of the holders of any series of Series Preferred Stock, Common Stock Directors may be removed from office only for Cause upon the affirmative vote of the holders of at least a majority of the total voting power of the then outstanding shares of Series A Common Stock, Series B Common Stock and any series of Series Preferred Stock entitled to vote upon the election of Common Stock Directors, and the Series A Preferred Stock Directors may be removed from office (x) for Cause upon the affirmative vote of the holders of at least a

---

majority of the total voting power of the then outstanding shares of Series A Common Stock, Series B Common Stock, Series A Preferred Stock and any series of Series Preferred Stock entitled to vote upon the election of Common Stock Directors voting together as a single class, and (y) without Cause by the holders of a majority of the shares of Series A Preferred Stock outstanding, voting together as a separate class, subject, in the case of the removal of a Series A Preferred Stock Director, to the right of the holders of Series A Preferred Stock to elect or appoint a replacement to fill such vacancy.

## **SECTION D**

### **NEWLY CREATED DIRECTORSHIPS AND VACANCIES**

Subject to the rights of holders of any series of Series Preferred Stock and except as otherwise provided in the Bylaws, any vacancy in the office of a Common Stock Director resulting from death, resignation, removal, disqualification or other cause, and newly created directorships resulting from any increase in the number of directors on the Board of Directors, shall be filled only by the affirmative vote of a majority of Common Stock Directors then in office (even though less than a quorum) or by the sole remaining Common Stock Director. Any Common Stock Director elected in accordance with the preceding sentence shall hold office for the remainder of the full term of the class of directors in which the vacancy occurred or to which the new directorship is apportioned, and until such director's successor shall have been elected and qualified or until such director's earlier death, resignation or removal. No decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director, except as provided by Article V, Section A or as may be provided in a Series Preferred Stock Designation with respect to any additional director elected by the holders of the applicable series of Series Preferred Stock.

## **SECTION E**

### **LIMITATION ON LIABILITY AND INDEMNIFICATION**

1. Limitation On Liability. To the fullest extent permitted by the DGCL as the same exists or may hereafter be amended, a director of the Corporation shall not be liable to the Corporation or any of its stockholders for monetary damages for breach of fiduciary duty as a director. Any amendment, repeal or modification of this Article V, Section E.1 shall be prospective only and shall not adversely affect any limitation, right or protection of a director of the Corporation existing at the time of such amendment, repeal or modification.

2. Indemnification.

(a) Right to Indemnification. The Corporation shall indemnify and hold harmless, to the fullest extent permitted by applicable law as it presently exists or may hereafter be amended, any person who was or is made or is threatened to be made a party or is otherwise involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (a "proceeding") by reason of the fact that he, or a person for whom he is the legal representative, is or was a director or officer of the Corporation or while a director or officer of

---

the Corporation is or was serving at the request of the Corporation as a director, officer, employee, representative or agent of another corporation or of a partnership, joint venture, limited liability company, trust, enterprise or nonprofit entity, including service with respect to employee benefit plans, against all liability and loss suffered and expenses (including attorneys' fees) incurred by such person. Such right of indemnification shall inure whether or not the claim asserted is based on matters that antedate the adoption of this Article V, Section E. The Corporation shall be required to indemnify or make advances to a person in connection with a proceeding (or part thereof) initiated by such person only if the proceeding (or part thereof) was authorized by the Board of Directors of the Corporation.

(b) Prepayment of Expenses. The Corporation shall pay the expenses (including attorneys' fees) incurred by a director or officer in defending any proceeding in advance of its final disposition; provided, however, that the payment of expenses incurred by a director or officer in advance of the final disposition of the proceeding shall be made only upon receipt of an undertaking by the director or officer to repay all amounts advanced if it should be ultimately determined that the director or officer is not entitled to be indemnified under this Section or otherwise.

(c) Claims. If a claim for indemnification or payment of expenses under this Section is not paid in full within 30 days after a written claim therefor has been received by the Corporation, the claimant may file suit to recover the unpaid amount of such claim and, to the extent permitted by law, shall be entitled to be paid the expense of prosecuting such claim. In any such action the Corporation shall have the burden of proving that the claimant was not entitled to the requested indemnification or payment of expenses under applicable law.

(d) Non-Exclusivity of Rights. The rights conferred on any person by this Section shall not be exclusive of any other rights which such person may have or hereafter acquire under any statute, provision of this Restated Certificate, the Bylaws, agreement, vote of stockholders or resolution of disinterested directors or otherwise.

(e) Insurance. The Board of Directors may, to the full extent permitted by applicable law as it presently exists, or may hereafter be amended from time to time, authorize an appropriate officer or officers to purchase and maintain at the Corporation's expense insurance: (i) to indemnify the Corporation for any obligation which it incurs as a result of the indemnification of directors and officers under the provisions of this Article V, Section E; and (ii) to indemnify or insure directors and officers against liability in instances in which they may not otherwise be indemnified by the Corporation under the provisions of this Article V, Section E.

(f) Other Indemnification. The Corporation's obligation, if any, to indemnify any person who was or is serving at its request as a director, officer, employee or agent of another corporation, partnership, joint venture, limited liability company, trust, enterprise or nonprofit entity shall be reduced by any amount such person may collect as indemnification from such other corporation, partnership, joint venture, limited liability company, trust, enterprise or nonprofit entity.

---

3. Amendment or Repeal.

Any amendment, modification or repeal of the foregoing provisions of this Article V, Section E shall not adversely affect any right or protection hereunder of any person in respect of any act or omission occurring prior to the time of such amendment, modification or repeal.

**SECTION F**

**AMENDMENT OF BYLAWS**

In furtherance and not in limitation of the powers conferred by the DGCL and subject to the rights of the holders of Series A Preferred Stock as set forth in Article IV, Section C.5(c)(iii), the Board of Directors, by action taken by the affirmative vote of not less than 75% of the members of the Board of Directors then in office, is hereby expressly authorized and empowered to adopt, amend or repeal any provision of the Bylaws of this Corporation ("Bylaws").

**ARTICLE VI**

**MEETINGS OF STOCKHOLDERS**

**SECTION A**

**ANNUAL AND SPECIAL MEETINGS**

Subject to the rights of the holders of any series of Series Preferred Stock and the rights of the holders of Series A Preferred Stock and except as provided in Article VI, Section B, stockholder action may be taken only at an annual or special meeting. Except as otherwise provided in a Series Preferred Stock Designation with respect to any series of Series Preferred Stock or unless otherwise prescribed by law or by another provision of this Restated Certificate, special meetings of the stockholders of the Corporation, for any purpose or purposes, shall be called by the Secretary of the Corporation at the request of at least 75% of the members of the Board of Directors then in office.

**SECTION B**

**ACTION WITHOUT A MEETING**

No action required to be taken or which may be taken at any annual meeting or special meeting of stockholders may be taken without a meeting, and the power of stockholders to consent in writing, without a meeting, to the taking of any action is specifically denied; provided, however, that notwithstanding the foregoing, (i) the holders of the Series B Common Stock may take action by written consent for purposes of consenting to (x) any Share Distribution pursuant to Article IV, Section B.4(c) of this Restated Certificate, (y) the issuance of shares of Series B Common Stock other than in a Permitted Series B Issuance, and/or (z) any amendment, alteration, repeal, addition or insertion of any provision of this Restated Certificate for which a Series B Consent is required in accordance with Article VII of this Restated Certificate, (ii) holders of Convertible Preferred Stock may take action by written consent as set forth in Article

---

IV, Section C.5(d), and (iii) holders of any series of Series Preferred Stock may take action by written consent to the extent provided in a Series Preferred Stock Designation with respect to such series.

## ARTICLE VII

### ACTIONS REQUIRING SUPERMAJORITY STOCKHOLDER VOTE

Subject to the rights of the holders of any series of Series Preferred Stock and the rights of the holders of Series A Preferred Stock as set forth in Article IV, Section C.5(c), the affirmative vote of the holders of at least 80% of the total voting power of the then outstanding Voting Securities, voting together as a single class at a meeting specifically called for such purpose, shall be required in order for the Corporation to take any action to authorize:

(a) the amendment, alteration or repeal of any provision of this Restated Certificate or the addition or insertion of other provisions herein; provided, however, that this clause (a) shall not apply to any such amendment, alteration, repeal, addition or insertion (i) as to which the laws of the State of Delaware, as then in effect, do not require the consent of this Corporation's stockholders, or (ii) that at least 75% of the members of the Board of Directors then in office have approved; provided, further that, notwithstanding the foregoing, so long as any shares of Series B Common Stock are issued and outstanding, unless the Corporation shall have obtained the Series B Consent with respect to such amendment, alteration, repeal, addition or insertion, (x) the Corporation will not amend, alter or repeal the provisions of this clause (a), the second full paragraph of Article IV or any provisions of Article IV, Section B of this Restated Certificate and (y) the Corporation will not amend, alter or repeal any provision of this Restated Certificate or add to or insert any provision in this Restated Certificate if (1) such amendment, alteration, repeal, addition or insertion would result, directly or indirectly, in the reclassification or recapitalization of the then outstanding shares of Common Stock into securities of the Corporation or any other Person (or securities convertible into or exchangeable for, or which evidence the right to purchase, securities of the Corporation or any other Person) and (2) the securities to be held or received by the holders of Series B Common Stock as a result of such reclassification or recapitalization (and, if such securities are Convertible Securities, the Underlying Securities with respect thereto) would have no voting power, or would have Per Share Voting Power of less than ten times the Per Share Voting Power of the securities (and, if such securities are Convertible Securities, the Underlying Securities with respect thereto) to be held or received as a result of such reclassification or recapitalization by the holders of shares of Series A Common Stock, (or, if there are two or more other series of Common Stock then outstanding, that series of Common Stock holding or receiving, as a result of such reclassification or recapitalization, securities (and, if such securities are Convertible Securities, the Underlying Securities with respect thereto) having the next highest Per Share Voting Power relative to the securities (and, if such securities are Convertible Securities, the Underlying Securities with respect thereto) to be held or received by the holders of Series B Common Stock), or (3) the securities to be held or received by the holders of Series C Common Stock as a result of such reclassification or recapitalization (and, if such securities are Convertible Securities, the Underlying Securities with respect thereto) would be entitled to vote with respect to matters upon which securities holders of the issuer thereof are generally entitled to vote (other

---

than to an extent no greater than the holders of Series C Common Stock are entitled to vote upon matters as provided in this Restated Certificate);

(b) the adoption, amendment or repeal of any provision of the Bylaws of the Corporation; provided, however, that this clause (b) shall not apply to, and no vote of the stockholders of the Corporation shall be required to authorize, the adoption, amendment or repeal of any provision of the Bylaws of the Corporation by the Board of Directors in accordance with the power conferred upon it pursuant to Article V, Section F of this Restated Certificate;

(c) the merger or consolidation of this Corporation with or into any other Person or any other business combination involving the Corporation; provided, however, that this clause (c) shall not apply to any such merger or consolidation (i) as to which the laws of the State of Delaware, as then in effect, do not require the consent of this Corporation's stockholders, or (ii) that at least 75% of the members of the Board of Directors then in office have approved;

(d) the sale, lease or exchange of all, or substantially all, of the assets of the Corporation; provided, however, that this clause (d) shall not apply to any such sale, lease or exchange that at least 75% of the members of the Board of Directors then in office have approved; or

(e) the dissolution of the Corporation; provided, however, that this clause (e) shall not apply to such dissolution if at least 75% of the members of the Board of Directors then in office have approved such dissolution.

Subject to the foregoing provisions of this Article VII, the Corporation reserves the right at any time, and from time to time, to amend, alter, change or repeal any provision contained in this Restated Certificate, and other provisions authorized by the laws of the State of Delaware at the time in force may be added or inserted, in the manner now or hereafter prescribed by law; and all rights, preferences and privileges of whatsoever nature conferred upon stockholders, directors or any other Persons whomsoever by and pursuant to this Restated Certificate in its present form or as hereafter amended are granted subject to the rights reserved in this Article VII.

## ARTICLE VIII

### SECTION 203 OF THE DGCL

The Corporation expressly elects not to be governed by Section 203 of the DGCL.

## ARTICLE IX

### CERTAIN BUSINESS OPPORTUNITIES

1. Certain Acknowledgements; Definitions. In recognition and anticipation that (a) directors and officers of the Corporation and its Subsidiaries may serve as directors, officers and employees of any other corporation, company, partnership, association, firm or other entity ("Other Entity"), (b) the Corporation and its Affiliates, directly or indirectly, may engage and are expected to continue to engage in the same, similar or related lines of business as those engaged

---

in by any Other Entity and other business activities that overlap with or compete with those in which such Other Entity may engage, (c) the Corporation and its Affiliates may have an interest in the same areas of business opportunity as any Other Entity, (d) the Corporation and its Affiliates may engage in material business transactions with any Other Entity and its Affiliates, including (without limitation) receiving services from, providing services to or being a significant customer or supplier to such Other Entity and its Affiliates, and that the Corporation and such Other Entity or one or more of their respective Affiliates may benefit from such transactions, and (e) as a consequence of the foregoing, it is in the best interests of the Corporation that the rights of the Corporation and its Subsidiaries, and the duties of any directors or officers of the Corporation or any of its Subsidiaries (including any such persons who are also directors, officers or employees of any Other Entity), be determined and delineated in respect of (x) any transactions between the Corporation and its Affiliates, on the one hand, and such Other Entity and its Affiliates, on the other hand, and (y) any potential transactions or matters that may be presented to officers and directors of the Corporation and its Subsidiaries, or of which such officers or directors may otherwise become aware, which potential transactions or matters may constitute business opportunities of the Corporation or any of its Affiliates, and in recognition of the benefits to be derived by the Corporation through its continued contractual, corporate and business relations with such Other Entity and of the benefits to be derived by the Corporation by the possible service as directors or officers of the Corporation and its Subsidiaries of Persons who may also serve from time to time as directors, officers and employees of such Other Entity, the provisions of this Article IX shall, to the fullest extent permitted by law, regulate and define the conduct of the business and affairs of the Corporation and its Subsidiaries in relation to such Other Entity and its Affiliates, and as such conduct and affairs may involve such Other Entity's respective directors, officers and employees, and the powers, rights, duties and liabilities of the Corporation and its Subsidiaries and their respective officers and directors in connection therewith and in connection with any potential business opportunities of the Corporation. Any Person purchasing or otherwise acquiring any shares of capital stock of the Corporation, or any interest therein, shall be deemed to have notice of and to have consented to the provisions of this Article IX. References in this Article IX to "directors," "officers" or "employees" of any Person shall be deemed to include those Persons who hold similar positions or exercise similar powers and authority with respect to any Other Entity that is a limited liability company, partnership, joint venture or other non-corporate entity.

2. Duties of Directors and Officers Regarding Potential Business Opportunities; No Liability for Certain Acts or Omissions. If a director or officer of the Corporation or any Subsidiary of the Corporation is offered, or otherwise acquires knowledge of, a potential transaction or matter that may constitute or present a business opportunity for the Corporation or any of its Affiliates (any such transaction or matter, and any such actual or potential business opportunity, a "Potential Business Opportunity"), such director or officer shall, to the fullest extent permitted by law, have no duty or obligation to refer such Potential Business Opportunity to the Corporation or any of its Subsidiaries, or to refrain from referring such Potential Business Opportunity to any Other Entity, or to give any notice to the Corporation or any of its Subsidiaries regarding such Potential Business Opportunity (or any matter related thereto), and such director or officer will not be liable to the Corporation or any of its Subsidiaries, as a director, officer, stockholder or otherwise, for any failure to refer such Potential Business Opportunity to the Corporation or any of its Subsidiaries, or for referring such Potential Business

---

Opportunity to any Other Entity, or for any failure to give any notice to the Corporation or any of its Subsidiaries regarding such Potential Business Opportunity or any matter relating thereto, unless both the following conditions are satisfied: (A) such Potential Business Opportunity was expressly offered to such director or officer solely in his or her capacity as a director or officer of the Corporation or as a director or officer of any Subsidiary of the Corporation and (B) such opportunity relates to a line of business in which the Corporation or any Subsidiary of the Corporation is then directly engaged.

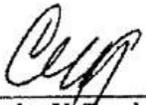
3. Amendment of Article IX. No alteration, amendment or repeal, or adoption of any provision inconsistent with, any provision of this Article IX shall have any effect upon (a) any agreement between the Corporation or an Affiliate thereof and any Other Entity or an Affiliate thereof, that was entered into before such time or any transaction entered into in connection with the performance of any such agreement, whether such transaction is entered into before or after such time, (b) any transaction entered into between the Corporation or an Affiliate thereof and any Other Entity or an Affiliate thereof, before such time, (c) the allocation of any business opportunity between the Corporation or an Affiliate thereof and any Other Entity before such time, or (d) any duty or obligation owed by any director or officer of the Corporation or any Subsidiary of the Corporation (or the absence of any such duty or obligation) with respect to any Potential Business Opportunity which such director or officer was offered, or of which such director or officer otherwise became aware, before such time.

---

IN WITNESS WHEREOF, the undersigned has signed this Restated Certificate of Incorporation this 17<sup>th</sup> day of September, 2008.

**DISCOVERY COMMUNICATIONS, INC.**

By: \_\_\_\_\_

  
Charles Y. Tanabe  
Senior Vice President

---





**Discovery, Inc.**

**Domestic Relocation Benefits  
Transformation Relocation Policy  
Tier 1 Executive Bands 0-3**

**Effective January 1, 2018**



**Domestic Relocation**



## Tier 1 Executive (Bands 0-3) - Domestic Relocation Summary

	<b>Pre-Acceptance Trip</b> - One trip with spouse/partner, up to five days to destination; lodging, economy transportation, meals. Area Tour provided by relocation vendor. Not subject to relocation budget.
	<b>Relocation Budget:</b> Executive selects from benefits listed below, available only for expenses incurred and expensed within one year of Transfer Date (as defined by your business unit and HRM), up to \$250,000 net
	<b>Eligible Dependents (as defined on page 7) Included</b>
	<b>Home Sale – Buyer Value Option</b> - Marketing assistance and normal and customary closing costs OR <b>Renter Early Lease Cancellation Penalties</b> - Reimbursement of documented expenses
	<b>Home Finding Trip</b> – Up to two trips with spouse/partner and eligible dependents up to five days each; lodging, economy transportation, meals and childcare reimbursement
	<b>Destination Services</b> - Help finding a home, schools, and settling in
	<b>Home Purchase</b> – Normal and customary closing costs <b>Home Rental</b> – Assistance with securing rental property in host location, Finder's fees/broker commissions
	<b>Duplicate Housing</b> – Up to 6 months of mortgage interest expenses <b>Temporary Living</b> - Up to 6 months in furnished accommodations
	<b>Shipment of Household Goods</b> - Up to 30,000 pounds, storage up to 6 months, and transportation of up to two autos if distance exceeds 300 miles
	<b>Final Move Expenses</b> - Transportation, mileage, lodging and meals, airfare if move distance greater than 300 miles
	<b>Spouse/Partner Assistance</b> - Outplacement/Job search assistance up to \$5,000 net
	<b>Pet Relocation Expenses</b> - Reimbursement of expenses up to \$5,000 net
	<b>Lump Sum Allowance</b> - Cash allowance to help defray some relocation-related expenses outside of the specific Relocation Budget items, up to \$15,000 net if available within Relocation Budget
	<b>Additional Payments to Executive (in addition to Relocation Budget)</b> - \$3,000 net for each eligible dependent - \$10,000 net for relocations into New York and Los Angeles
	<b>Days off for Relocation</b> - Up to three paid days for relocation activities, in addition to Pre-Acceptance and Home Finding trips
	<b>Tax Assistance</b> - Gross up of taxable relocation expenses (as defined on page 9) not counted toward Relocation Budget

All Summary terms specified above are subject to the detailed terms in the attached policy.

---



**Table of Contents**

Table of Contents ..... 3

Introduction ..... 5

    How to Use This Guide ..... 5

Relocation Counselor ..... 6

Planning..... 6

Pre-Acceptance Trip..... 6

Defining your Benefit Package..... 7

General Terms and Conditions ..... 7

    Eligibility ..... 7

Eligible Dependents ..... 7

    Confidentiality..... 8

    Personal Data Protection ..... 8

    Interpretation & Changes in Benefits ..... 8

    Effective Date ..... 8

    Effective Transfer Date ..... 8

    Exceptions ..... 9

Relocation Repayment Agreement ..... 9

Expense Reimbursement ..... 9

Home Sale – Buyer Value Option..... 10

    Marketing Assistance ..... 12

    Listing Your Home ..... 13

    Marketing Updates ..... 13

    Inspections ..... 13

    Repair Allowance ..... 14

    Title Search..... 14

    Receiving an Offer From an Outside Buyer ..... 14

    Closing the Sale with the Relocation Vendor..... 15

    Expenses Not Covered ..... 15

Home Finding Trip..... 16

Destination Assistance ..... 16

Home Purchase Assistance ..... 17

    Home Purchase Inspection ..... 17







New Home Mortgage.....	17
Preferred Lenders .....	18
Rental Home Finding.....	19
Duplicate Housing .....	19
Moving Household Goods.....	20
Valuation Protection .....	21
Vehicles .....	21
In-transit Storage .....	21
Final Move Travel.....	22
Temporary Living Pre-Departure & Post-Arrival.....	22
Spouse/Partner Assistance .....	23
Pet Transportation Expenses .....	23
Lump Sum Allowance .....	24
Additional Payments Outside of Relocation Budget .....	24
For Dependents.....	24
For Relocations to New York City and Los Angeles.....	25
Days off for Relocation.....	25
Tax Assistance .....	25
Gross-Up Assistance.....	25
Child Tax Credit .....	25
Tax Summary.....	27
Reduction in Force/Workforce Restructuring Subsequent to Transfer Date .....	28
Benefit entitlements include: .....	28



---



## Introduction

Congratulations! You are off on an exciting adventure and we want to help prepare you for what's ahead. This guide is designed to educate you about the benefits to offset some of your expenses associated with your relocation. Please be aware that the guide provides a general summary of benefits.

We want you to feel supported, inspired and motivated to perform at your best – because it's only together that we can ignite curiosity in audiences in every corner of the globe.

There are numerous personal, legal and tax issues that may need to be considered with this amazing opportunity. Making well-informed decisions requires an understanding of your benefits and your role in the process.

This guide is an explanation of benefits related to relocation; it is not an employment offer or employment contract or a guarantee of continued employment. The Company's decisions regarding the application and interpretation of the relocation benefits are final and the Company reserves the right to change or cancel all or any part of these benefits at any time.

### How to Use This Guide



*Throughout this explanation of benefits look for this icon indicating you must **TAKE ACTION** to make the most of these awesome benefits and services and to read important notices.*



*Look for this icon for **IMPORTANT INFORMATION**.*

*Let us know if you need any help along the way!*



#### **FIRST REQUIRED ACTION**

Please take the time to read this guide carefully as you are responsible for understanding and adhering to guidelines. We want to deliver on our promise of being a great place to work, and we'll need your help.

For Questions, contact [Global\\_Mobility@Discovery.com](mailto:Global_Mobility@Discovery.com)



Domestic Relocation

---



## Relocation Counselor

Discovery (“the Company”) has relocation vendors to assist you in coordinating aspects of your relocation. Upon receiving relocation authorization from the Company, the selected vendor will assign a dedicated Relocation Counselor (“Relocation Counselor”) who will be your primary point of contact throughout your move. Your Relocation Counselor will navigate you through the relocation process and answer any questions. The section below on **Expense Reimbursement** explains how to work with your Relocation Counselor to make the most of this benefit.

## Planning

The Company encourages you to become fully involved in your relocation and to work closely with the professionals hired to help you. The more actively you participate the more effectively the relocation vendors can assist you. Planning a move with a clear understanding of these benefits will also help to avoid unpleasant surprises. The most successful moves are those that are well planned.



### Pre-Acceptance Trip

Pre-Acceptance trip expenses are paid separately outside of the \$250,000 total budget.

You and your spouse/partner are eligible for a trip to the potential destination for up to five (5) days prior to the acceptance of the relocation. Reimbursable expenses include transportation (either mileage reimbursement or airfare and local fares to/from airports) and lodging. All travel arrangements are to be in accordance with The Company’s Travel and Entertainment Policy ([Travel Policy](#)). During the trip, the relocation vendor will arrange for an area tour including an overview of residential areas and local housing.

Pre-Acceptance trip up to five (5) days includes:

- Round-trip transportation
  - Economy Airfare – if distance exceeds 300 miles, train, or mileage at current rate
- Local transportation
- Reasonable lodging
- Meal expenses up to the daily limits noted in the [Travel Policy](#) for employee and spouse/partner.



**ACTION REQUIRED: Please contact your relocation vendor to coordinate your Pre-Acceptance trip. Pre-Acceptance trips should coincide with a business trip.** The employee’s expenses will not be considered taxable income. A spouse’s/partner’s Pre-Acceptance trip expenses are considered relocation expenses for tax purposes and will be grossed-up.



---



## Defining your Benefit Package



**The total cost of your relocation expenses must not exceed \$250,000 net.** Tax Gross-up assistance is provided in addition to the \$250,000 limit.

It is recommended you work closely with the professionals that have been made available to properly plan and budget your move accordingly. If you exceed \$250,000 in expenses, you will be responsible for those excess costs.

A Domestic Relocation benefit package is available for new hires and for current employees. You may begin incurring eligible expenses when you sign your Relocation Agreement and until one year after your Transfer Date. All expenses must be incurred and expensed within one year of your Transfer Date; **Transfer Date expenses incurred and/or expensed beyond one year from your Transfer Date will not be covered by the Company.**

## General Terms and Conditions

### Eligibility

You are eligible for assistance described if:

- a) You are a current, full-time employee, or a new hire in Job Bands 0, 1, 2 or 3
- b) The distance between the former residence and the new work location must be fifty (50) miles greater than the distance between the former residence and the former work location
- c) You are requested to relocate by the Company and are designated as eligible to receive these benefits

If you are receiving any relocation benefits through a third party such as your previous employer or via your spouse/partner, you are required to disclose this information to the Company. The Company, at its sole discretion, may offset or withdraw any or all benefits for your relocation.



### Eligible Dependents

For purposes of accompanying you on a relocation, eligible dependents include your:

- Current spouse (including a common-law spouse according to applicable law) or domestic partner
- Any child age 18 or under who is in your legal custody or the custody of your accompanying spouse or domestic partner and who depends upon you for financial support
- Any unmarried son or daughter up to age 25 who is a registered full-time student working toward a degree.



## Domestic Relocation

---



#### Confidentiality

In order for our vendors to administer the provisions of this guide, the Company provides certain employee information to vendors such as base salary, tax information or information regarding dependents, should they be authorized to accompany you. Our vendors and their employees are obligated to maintain the confidentiality of your personal information and use it only for the purposes set forth in this relocation guide.

#### Personal Data Protection

In agreeing to the relocation, you expressly consent to your personal data (and your family's personal data) being processed or transferred to the relocation vendor and its service providers. Consult with Global Mobility if you have questions.

#### Interpretation & Changes in Benefits

This guide establishes the criteria for receiving payment or reimbursement for your relocation expenses. Expense limits and payment guidelines are established by Human Resources and administered by the Global Mobility team. This document provides most of the information you will need to know about your benefits. However, the Company reserves the right to end, suspend or amend these benefits at any time without notice. Further, the Company retains the ultimate discretionary authority to establish and interpret the provisions of this guide and determine eligibility for benefits.

#### Effective Date

This guide describes the provisions of Company Relocation Benefits effective as of January 1, 2018 and applies to all relocations initiated after January 1, 2018. It replaces all relocation benefits and materials issued prior to that date. If your relocation was initiated prior to January 1, 2018, the policy in effect at the time of your relocation remains controlling.

#### Effective Transfer Date

The effective Transfer Date is determined by your business unit. It is typically the hiring date in your hiring location. The date at which point you begin receiving relocation benefits is agreed upon with your business unit and managed by the relocation vendor. You may start your relocation process in advance of your Transfer Date. The relocation process will continue after your Transfer Date. However, as noted in Defining Your Benefit Package, you have one year from your Transfer Date to incur and submit relocation expenses.



---



## Exceptions

Should the need arise to request any deviations or exceptions from this explanation of benefits, please contact your Relocation Counselor. The Company's Global Mobility team has the sole discretion to approve any exception requests prior to any reimbursement. **Neither your manager nor division head have the authority to grant any exceptions to these benefits.**

## Relocation Repayment Agreement



**IMPORTANT:** Relocating an employee requires a substantial commitment by the Company. Therefore, if you should elect to voluntarily terminate your employment with the Company during the 24-month period immediately following your effective Transfer Date in the new location, you will be required to repay the Company all relocation costs incurred by the Company.



**ACTION REQUIRED:** You must sign and return your Relocation Repayment Agreement before any relocation services can start and any payments can be processed.

## Expense Reimbursement

Your Relocation Counselor assists you with administering the reimbursement of reasonable, necessary and properly authorized expenses covered under these benefits. If you have questions about this process, please contact your Relocation Counselor.

You are expected to manage expenses at a conservative level and to be familiar with which expenses are reimbursable and which are not. You will receive additional information on reimbursable expenses under these benefits. The Company, at its discretion, may choose not to reimburse, in full or in part, an expense that is deemed unreasonable or excessive. All expenses, unless otherwise specified, must be in accordance with the Company's relocation benefits. Receipts are required for all reimbursable expenses. **Credit card statements cannot be used in lieu of receipts.**

Please contact your Relocation Counselor for assistance in setting up your account for reimbursements, if applicable. **It is important to remember:**

- Relocation expenses are separate and distinct from business expenses
- Business travel and entertainment expenses should be incurred and submitted in accordance with the [Travel Policy](#)
- Relocation benefits are NOT business expenses and must not be treated the same way as business expenses



---



- You should not use your company corporate card for relocation expenses. If you incur a relocation-related expense on your COMPANY CORPORATE CREDIT CARD in error, you should reconcile it as a personal expense on the corporate card and then separately submit for reimbursement under the relocation expense process
- You should keep records and original receipts of all expenses
- Cash payment may not be substituted or exchanged for any specific benefit unless explicitly indicated
- Any unused benefits are not interchangeable for any other benefits or cash monetary value
- **No expenses will be reimbursed or paid after one (1) year from Transfer Date in the new location**

If you have questions about this process, please contact your Relocation Counselor.



**ACTION REQUIRED: Keep records and original receipts of all relocation expenses.**



#### Home Sale – Buyer Value Option

Home sale assistance is available to existing homeowners in the origin location at the time of the relocation. The Company will cover the normal and customary costs associated with selling your home, as described in this policy.



**IMPORTANT:** Please do not contact any real estate agent to list your home until you speak with your Relocation Counselor about the home sale program benefit called the Buyer Value Option (BVO) home sale program. **In order to remain eligible for all of the benefits of the relocation program, you must work with service providers approved by the relocation vendor.**

The BVO program enables you to sell your home to the relocation vendor who then sells it to an outside buyer. When all requirements are met, broker commissions and closing costs paid as part of this home sale program are non-taxable under current IRS guidelines. Except for the involvement of the relocation vendor, the marketing and sale of your property is the standard home sale process.

The home that you are selling must be considered your primary residence and you must occupy the property prior to the acceptance of this relocation. Home Sale Assistance is **NOT** available for cooperative apartments, duplexes, mobile homes, property sold under a land contract or other deferred passage-of-title arrangements, seasonal residences, farms, income producing properties, homes with excess acreage or additional lots, and properties that are zoned for agriculture.



---



**ACTION REQUIRED: If your home is valued at \$1,000,000 or more, please contact your Relocation Counselor immediately to ensure proper allocation of your relocation funds.**

The Company reserves the right **NOT** to provide Home Sale Assistance to any property that is deemed cost prohibitive due to any of the following:

- Employee is not in title or the title is not clear
- Severe marketability problems
- Zoning or easement disputes
- Homes in the midst of legal proceedings including: divorce, foreclosure, short sale, etc.
- Hazardous substances or improperly installed materials such as but not limited to: radon, asbestos, synthetic stucco, LP siding, aluminum wiring, illegal substances including the by-products of a “meth” lab, vermiculite insulation, underground fuel tanks, etc.
- Homes with imported corrosive drywall
- Vacation/secondary homes
- Homes that cannot be financed by a lending institution or are uninsurable
- Homes uninhabitable or unmarketable due to the physical condition and/or homes that are structurally unsound
- Homes that do not qualify for standard insurance rates
- Homes that do not comply with local building codes
- Homes that are partially completed or are under substantial renovation
- Homes with subrogated mineral rights
- Homes with Private Transfer Fee covenants (PTF)
- Investment or rental properties
- Properties with excessive acreage for the area (+5 acres)
- Houseboats
- Vacant lots appraised as contributory value only

Properties with the following issues would not qualify for the BVO Home Sale program until remedial steps are taken to correct the problem:

- An “active” underground storage tank unless you are able to provide transferable “Tank Insurance” that covers spills and clean ups and is acceptable to the relocation vendor; the property will again be eligible. The cost of such insurance is your responsibility. It will also be



**Domestic Relocation**

---



your responsibility to provide all clearance from applicable municipality state or federal governances.

- Residences with an “inactive or abandoned” underground storage tank unless you are able to have the underground storage tank successfully removed and provide documentation (i.e. receipt from contractor or proof of payment) and re-inspection results in a clear report, acceptable to the relocation vendor. The cost of all remedial steps is the responsibility of the relocating employee. It will also be your responsibility to provide all clearance from applicable municipality state or federal governances.
- Environmental, Structural and/or EPA related issues as it relates to environmental concerns (such as but not limited to asbestos, lead paint, toxic materials) and excessive repairs. If retesting results in a clear report, acceptable to the relocation vendor the property will again be eligible. The cost of all remedial steps is the responsibility of the relocating employee. It will also be your responsibility to provide all clearance from applicable municipality state or federal governances.



**IMPORTANT: If your home is eligible for the Home Sale – Buyer Value Option program (BVO) and you choose NOT to go through the program, you forfeit all home sale assistance benefits. If your home is ineligible for the BVO home sale program based on the requirements above, you can still submit your Closing Settlement Statement to the relocation vendor for reimbursement of broker commission and normal and customary seller’s costs if within Relocation Budget.**

#### Marketing Assistance

The Company understands that getting the best price for your home is vital to a successful relocation. The selection of a knowledgeable real estate agent is very important. The relocation vendor has arranged to provide you access to a network of qualified real estate agents available in your community who specialize in assisting relocating employees and are trained in relocation home sale requirements. The relocation vendor’s recommended real estate firms and agents are specially trained to effectively market your home, as well as, address the needs that are unique to relocation. In addition, using one of these agents may relieve you of any pressure you may feel to use the services of a friend, relative or acquaintance in the real estate field.

The relocation vendor will provide you with qualified agents in your area from which to select a listing agent/firm. You are encouraged to interview these agents to assess their ability to effectively market your home. Please advise them that you are considering using their services and they have been referred by the relocation vendor.

Some of the questions you might ask them to help you in your selection process are:







- What is the current average marketing time for listings in my neighborhood?
- How many homes similar to mine in price and location do you currently have listed?
- How many homes similar to mine have you sold in the last 90 days?
- In what locations and price ranges are you most active?
- What are the comparable home listings and sales you will or have used to arrive at your recommended list price?
- How do you intend to market my home (number/frequency of open broker and public houses, where and how will my home be advertised including number of websites, other recommendations)?

The agent's marketing strategy will include:

- Suggestions on how to prepare your home for sale
- A recommended listing price and anticipated sales price
- Information on competing properties for sale and recently closed comparable homes
- Creative home sale promotion ideas
- Bi-weekly marketing update/status reports to you and the relocation vendor

#### Listing Your Home

Agent listing commissions should be limited to 6% and the initial listing period should be no longer than 90 days. To ensure you are priced right for the market, you are encouraged to not list for more than 105% of the average of the 2 agents' anticipated sales price.

#### Marketing Updates

Your Relocation Counselor will monitor the entire listing effort, including a review of homes currently listed in your area and an evaluation of recently closed properties to ensure that a realistic pricing strategy is in place. Marketing assistance also includes pro-active marketing strategy calls, follow-up on buyer and Realtor feedback, follow-up on advertising and open house events. Your Relocation Counselor will also make recommendations to adjust your price, sales terms, and/or conditions accordingly.

#### Inspections

At the same time you are making your agent selection, the relocation vendor must order property condition inspections on your home in order to purchase your home once an outside buyer is found.

These inspections include, but are not be limited to:

- General Property Condition Inspection
- Pest Inspection (Wood Destroying Organism – WDO)
- Radon Warranty, if applicable for your area
- Well and/or septic system inspection, if applicable



**Domestic Relocation**

---



Additional inspections, such as structural or roof inspection may be required based on recommendations on the General Property Condition Inspection report. When your Relocation Counselor receives the inspection reports from the inspection company, copies are sent to you and required repairs, if any, will be reviewed with you. You are required to make repairs before a buyer makes an offer. (See “Repair Allowance” below.)

#### Repair Allowance

Based on the Property Condition Inspection above, you may be required to undertake certain repairs. Should you be required to make repairs, you may be reimbursed for home repairs up to the amount of \$5,000 net. The relocation vendor and/or your listing agent can assist with hiring applicable contractors and arrange for direct billing of costs, where possible. Any repairs over \$5,000 will be at your expense. Certified contractor receipts for work completed and a satisfactory re-inspection will be required for reimbursement. Please discuss the options with your Relocation Counselor PRIOR TO making any repairs. When repairs are completed during the marketing process and prior to an outside buyer’s offer, the home has more market appeal and buyers are less likely to want to negotiate price based on condition. The relocation vendor may not accept an offer with contingencies if repairs are not completed.

#### Title Search

In addition to property condition inspections, the relocation vendor will contact its national real estate title company to complete a title search on your home to ensure the title on your home is clear. The title company will also send you required documents necessary to close the sale with the outside buyer that you will need to complete and return so the relocation vendor can close the sale with the new buyer once an offer is accepted on your home.

#### Receiving an Offer From an Outside Buyer

When you receive an acceptable offer from an outside buyer, your Relocation Counselor can assist you with the negotiation process. You can negotiate with the outside buyer until a verbal agreement is reached.



**IMPORTANT: DO NOT SIGN ANY CONTRACT OR PURCHASE OFFER.** Signing an offer will disqualify you from the BVO program. The written offer must list the relocation vendor as the seller.

The sale cannot be contingent on the closing or sale of the buyer’s current home.

The written offer packet must include all required relocation vendor’s and state required documents including:



---



- Buyer's lender pre-approval letter
- The relocation vendor and state property disclosure forms
- Inspection reports initialed by buyer
- The relocation vendor's Addendum to Purchase and Sales Agreement

Your real estate agent will send the outside buyer's written offer including the above to your Relocation Counselor for review and approval. If the offer meets all the requirements for the Buyer Value Option program, and you have completed and returned to the relocation vendor and the title company all your required paperwork, your Relocation Counselor will send you Contract of Sale to purchase your home for the same price and terms as the outside buyer's offer. After you sign and return the Contract of Sale, the relocation vendor will sign the written offer from the outside buyer.

#### Closing the Sale with the Relocation Vendor

When you accept relocation vendor's offer on your home and need your equity to purchase a home in your new location, they will have its title company determine the equity in your home. Your equity will be based on the purchase price less any mortgage balance(s), taxes, interest and Homeowners' Association fees, if applicable, prorated through your vacate date or offer acceptance date, whichever is later, and any agreed upon repair costs not previously completed. You may request up to 80% of your equity in advance for your new home purchase closing costs or down payment. Speak to your Relocation Counselor if you anticipate needing an equity advance.

You will not be billed for any standard closing costs on the sale of your home to the relocation vendor.

#### Expenses Not Covered

The following costs are examples of items that are **NOT** covered closing expenses and will be deducted from your equity if they are included in the sale to the outside buyer:

- Home Owner Warranties
- Closing Costs typically paid by the buyer
- FHA fees
- Concessions to the Buyer (such as homeowners' association or property tax credits)
- Buyer Broker Fees
- Prepayment penalties over \$2,500
- VA closing costs exceeding 3% of the sale price

This list is not all-inclusive. Questionable items should be addressed with your Relocation Counselor during the sale negotiation process.



---



### **Renter Early Lease Cancellation Penalty**

Employees who are renting in their current location prior to relocating may be subject to a penalty for early lease termination. If lease cancellation penalties cannot be avoided, the Company will reimburse documented fees. Typical early lease cancellation fees are one, two, or three months of rent, as defined with a lease agreement.

Reimbursement will be provided for documented lease cancellation penalties if within Relocation Budget.



### **Home Finding Trip**

Employees and their spouses/partners and children are eligible for two (2) trips to the destination for up to five (5) days for each trip. Reimbursable expenses include either mileage reimbursement or airfare, local transportation, meals and lodging. Reasonable childcare expenses will be reimbursed if the children are not included on the trip. Other expenses such as house sitting and animal care are covered by your Lump Sum. All travel arrangements are in accordance with The Company's [Travel Policy](#).

The home finding trips include:

- Round-trip transportation
  - Economy Airfare – if distance exceeds 300 miles, or mileage at current rate
- Local transportation Reasonable lodging
- Meal expenses up to the daily limits noted in the [Travel Policy](#) for employee and spouse/partner; children at 50% of daily limit



**IMPORTANT:** Travel arrangements must be booked according to the Company's [Travel Policy](#). Please contact your Relocation Counselor to coordinate home finding trip(s).



### **Destination Assistance**

The Company understands that finding the right home in the new location is vital to a successful relocation. Destination services provides access to either a professional rental agent or a qualified real estate agent who will be able to assist with area counseling and provide specific information.

The types of support available include:

- Types and price ranges of available rental housing or homes for sale

---



- Town and neighborhood data
- Property tax information
- Commuting information
- School information
- Medical, religious and other personal information

If necessary, and if within budget, the Company will provide reimbursement for a school consultant who specializes in assessing student's needs, testing, and placement in specialized education programs.



### Home Purchase Assistance

You will be provided with access to pre-qualified real estate firms and agents available in the new community who specialize in assisting relocating employees. The realtors recommended by the relocation vendor have been specially trained to address issues that are unique to relocation. Using one of these agents may relieve you of any pressure to use the services of a friend, relative or someone less qualified.



**IMPORTANT: Do not contact a real estate agent in your new location prior to speaking with your Relocation Counselor.** Selection of a knowledgeable and competent real estate broker in an unfamiliar area is very important.

### Home Purchase Inspection

In addition to obtaining a mortgage on your new home, you may want to have a home inspection performed prior to completing the transaction. You will be reimbursed for a destination home inspection.

### New Home Mortgage

There are numerous expenses associated with the closing of a new home. The Company will reimburse your normal and customary buyer's closing costs in connection with the purchase of your new home.

The following criteria must be met for reimbursement:

**Your new home purchase must occur within one year of your Transfer Date.**

Normal and customary closing costs for financing include, but are not limited to:



Domestic Relocation

---



- Origination charges including Mortgage application fee, processing and commitment, and/or service fee
- Reasonable attorney (legal) fees
- Conveyance taxes
- Title Insurance - Lender's coverage only, if typically paid by the buyer
- Recording fees (including tax stamps)
- Credit reports
- Appraisal fees
- Flood certification
- Survey fees if required by lender
- Reasonable fees for Property Inspection
- VA funding fees

The following costs will **NOT** be considered:

- Discount points
- Property tax, insurance or interest
- Expenses normally charged to seller
- Private Mortgage Insurance (PMI)
- Improvement assessments by State, City, County taxing authorities
- Any fees associated with a Buyer Brokerage

If you have any questions on what is normal and customary for your new area, please check with your Relocation Counselor.

#### Preferred Lenders

As an added benefit to the relocation policy, the relocation vendor has established a relationship with national mortgage partners to assist eligible transferring employees in obtaining financing in the new area. These national mortgage lenders offer competitive interest rates and a wide variety of mortgage programs. The service will include discrete, confidential mortgage counseling. Pre-qualification will be available to the employee to utilize before going on the house-hunting trip.

Because the mortgage companies are familiar with the relocation vendor and the Company's benefits, you should experience easy processing. In addition, all reimbursable closing costs on the new home purchase that are within your relocation budget will be direct billed to the relocation vendor.

Your Relocation Counselor will describe the program options with you and can arrange to have a representative from these lenders contact you. If you would like to contact the lenders directly, your



**Domestic Relocation**

---



Relocation Counselor will provide you with contact information. Please identify yourself as an employee of Discovery.

If you do not use the direct bill option, you must submit an official signed copy of the Closing Settlement Statement within two weeks following the closing date.

#### Rental Home Finding

Help is available to assist you in renting a house or an apartment in your new location.

Your Relocation Counselor will refer you to a designated rental finding professional. The Company will pay the fees associated with the use of one of these agents. These professionals are well qualified to assist you with area counseling and rental finding assistance. You are responsible for fees charged by agents who have not been referred to you by your Relocation Counselor.

In Manhattan, the customary cost of obtaining a rental property is 12% to 15% of the annual rent. In the surrounding NY Metro area excluding CT, the customary fee is equal to one-month rent. The Company will reimburse you for these customary costs to obtain a rental in these areas.

It is uncommon for agents in other areas to charge rental commissions so please check with your Relocation Counselor before paying any fees to agents or landlords.



#### Duplicate Housing

If you close on a home in your new location prior to the sale of your home in the former location, the Company will reimburse you for certain duplicate housing expenses listed below for up to a maximum of six (6) months, if within your relocation budget.

The home in your departure location must be considered your primary residence and you must have occupied the property prior to the acceptance of this relocation. The Company cannot provide benefits for vacation homes or investment properties.

The Company may reimburse you housing costs for the following costs related to maintenance of your property in the origin location:

- Mortgage Interest (1st mortgage only)
- Property Tax
- Homeowners Insurance



---



- Homeowner's Associate Dues
- Utilities (gas, electric, sewage/water)
- Lawn Maintenance (grass cutting or snow removal)

Reimbursement will be made upon receipt of documented duplicate mortgage payment such as your mortgage statement, property tax bill, homeowners insurance bill, etc.

Non-deductible reimbursements will be grossed up. Interest expense and property tax are a tax-deductible expense on your Federal Income Tax filing for mortgages up to \$750,000 and so not grossed up.

This benefit may be applied should you choose to rent in the destination rather than purchase. Discuss your needs with your Relocation Counselor.



#### **Moving Household Goods**

The relocation vendor has contracted with top quality, national van lines to provide this service to you. You will be given a mover who is best suited to provide you with quality service based on your location.



**ACTION REQUIRED: Contact your Relocation Counselor as early as possible to establish a preliminary schedule.** Household goods shipments can take up to three weeks to book.

The following expenses and services are covered:

- Packing and shipping of ordinary household goods and personal effects up to a maximum weight of 30,000 pounds
- Disconnect and reconnect of normal household appliances
- Two (2) extra pickups and deliveries, if needed
- Two (2) debris removals
- Full unpacking (put-away) service

The following expenses and services are not covered:

- Shipment of hazardous materials such as explosives, chemicals, flammable materials, firearms (except where permitted by law), garden chemicals
- Shipment of hot tubs/spas, sheds, above ground pools



---



- Valuables such as jewelry, currency, dissertations or publishable papers, and other collectibles or items of extraordinary value
- Removal, disassembling or installation of carpeting, drapery rods, storage sheds or other permanent fixtures
- Shipment of boats, recreational vehicles and unusually heavy or cumbersome hobby materials
- Special packing or transportation of frozen foods, plants, wine collections or other perishables
- Moving or shipping such items as trees, shrubs, construction materials, firewood, livestock and other non-domestic and domestic animals
- Tips or other gratuities to the moving company's employees
- Any services performed by the employee, dependents or relatives

#### Valuation Protection

Valuation coverage at full replacement value is provided for your personal property while in transit. The valuation does not cover: bank accounts, bills, deeds, evidence of debt, currency, letters of credit, passports, airline or other tickets, securities, bullion, precious stones, stamp or coin collections. Special arrangements should be made for these items.

#### Vehicles

You are encouraged to drive your personal car(s) to the new location if possible when you report to work. Mileage reimbursement is made at the company's current mileage rate. If the distance to the new location is more than 300 miles you may ship two (2) vehicles. One or more motorcycles may be included in the shipment as well, if within relocation budget.

Insurance on such vehicles will be provided, however, vehicles that are shipped are not eligible for mileage expense reimbursement.

#### In-transit Storage

You should make every effort to move directly to your permanent residence. If your new home is not accessible for delivery of your household goods or if you are required to vacate your previous residence due to a buyer requiring immediate occupancy, temporary storage will be provided for a period not to exceed 6 months, if within budget.



---



### Final Move Travel

The final move trip is defined as one day in the old and one day in the new and days en route. Any remaining days are considered temporary living. All travel arrangements are in accordance with The Company's [Travel Policy](#), except for the following special provisions:

- Airfare if the move is over 300 miles, 7-day advance purchase ticket is required.
- Meal expenses up to the daily limits noted in the [Travel Policy](#) for employee and spouse/partner; children at 50% of daily limit. Personal Automobile Travel will be reimbursed as follows:
  - If the move is less than 300 miles, mileage will be reimbursed at the current corporate mileage rate.
  - If the move is over 300 miles and you choose to drive, you will be reimbursed for reasonable lodging, meals and mileage at the current corporate mileage rate.



**ACTION REQUIRED: Please contact your Relocation Counselor to coordinate your Final Move trip.** Travel arrangements must be booked according to the Company's [Travel Policy](#).



### Temporary Living Pre-Departure & Post-Arrival

You've packed up your house and are ready to move, but you haven't found a place in your new location? Not a problem! Your Relocation Counselor will assist you in obtaining suitable living facilities. The expenses incurred for temporary living accommodations are billed directly to the relocation vendor.

Temporary living includes the following:

- Fully furnished apartments including linens, utilities, internet access, local telephone service with the exception of long-distance personal phone calls, television, and depending on the location, one parking space. The size of the apartment will be in line with your family size, not to exceed 3 bedrooms.
- If corporate housing is not available or doesn't have a kitchen or laundry facilities, the Company will reimburse reasonable meal and laundry expenses based on the [Travel Policy for up to two weeks](#). Children under 18 are reimbursed up to 50% of the allowable daily amounts, all if within budget.



---



- The Company provides up to 6 months of temporary living accommodations in any combination of the origin and destination location depending on your needs and if within budget.
- Personal long-distance telephone charges, meals, additional fees for pets, and laundry and other incidentals are at your expense.

If the move distance is greater than 300 miles, you may pre-ship one car and rental car expenses while your vehicle is in transit will be reimbursed (fuel is not included). If your move distance is less than 300 miles, you should plan to drive and use your personal vehicle while in temporary living. You will not receive reimbursement for any other temporary transportation expenses.

If you report to your new location before being joined by your family, you may be reimbursed for return trips to visit your family, providing that you have funds remaining in your total relocation spend. Return trips must follow The Company's [Travel Policy](#).



#### **Spouse/Partner Assistance**

The Relocation Counselor may initiate services with a Spouse/Partner Assistance provider upon request if within budget.

Services may include:

- Career assessment tools and exploration of career options
- Resume preparation and comprehensive marketing plan development
- Coaching for interviewing and negotiating
- Licensing requirements for professionals
- Networking strategies

Eligible spouses/partners will receive program expenses up to \$5,000 net and the program must be completed within the first 12 months of your Transfer Date.



#### **Pet Transportation Expenses**

The cost to transport and board pets in transit are reimbursable under the relocation plan up to \$5,000 net.



---



To receive reimbursement, provide documented expenses to the relocation vendor through the expense reimbursement process.

Employees and their family members take full responsibility for pets at all times; neither the Company nor the relocation vendor have any liability with regards to household pets.



### Lump Sum Allowance

A Lump Sum Allowance may be available if you have not utilized the entire amount of your relocation budget. A Lump Sum Allowance may be requested to cover additional expenses and incidentals not covered by the specific relocation benefits provided by the Company.

**The maximum amount of the Lump Sum Allowance for the employee is \$15,000 net regardless if you have more funds remaining in your budget.**

The following expenses and services, if required, are not eligible for reimbursement ***and are expected to be paid by the employee from the Lump Sum Allowance:***

- Security deposits/advance rent
- Driver's license/automobile registration
- Cable/Utility hook-up/installation
- Housecleaning services
- Carpet/drapery cleaning and/or altering
- Non-refundable portion of service contracts and memberships
- Shipment of items not covered under the movement of household goods
- Gratuities to movers
- Non-transit related pet expenses
- Any additional tax liability incurred as a result of the move
- Professional tax services
- Any other expenses not covered by this policy



### Additional Payments Outside of Relocation Budget

For Dependents

The Company will provide a payment equal to **\$3,000 net for each eligible dependent** that will accompany you to your new destination. This additional amount for dependents does not count against your total budget.



---



For Relocations to New York City and Los Angeles

Relocations to New York City and Los Angeles are eligible for an additional **\$10,000 net** allowance payment. This additional amount takes into consideration that these two areas have a higher cost of living and you may incur added costs when securing a property. This additional amount does not count against your total budget.



### Days off for Relocation

In addition to home finding trips and travel days, the Company will provide an additional three (3) days of paid time off to help with completing necessary tasks associated with your relocation (pre-move survey of household goods, packing, delivery of household goods, etc.).



**ACTION REQUIRED:** You must seek approval from your manager prior to taking any time off for relocation.



### Tax Assistance

The IRS requires that all relocation expenses paid by an employer be included in your gross income. The Company will provide tax gross-up assistance on the relocation benefits paid to you or on your behalf. **All expenses, except those related to the Home Sale – Buyer Value Option and employee’s share of Pre-Acceptance Trip expenses are considered taxable income.**

#### Gross-Up Assistance

The Company will pay the estimated federal, state, local and FICA taxes on your behalf in order to alleviate the tax burden associated with company-paid, non-deductible relocation expenses.

#### Child Tax Credit

If you become ineligible for the Child Tax Credit as a result of your relocation expenses adding to your gross income, contact your Relocation Counselor.

**Deductible expenses** are those that can be deducted from your taxable income at the time you prepare your annual federal income tax return. Although they will be reported as income to you, Discovery will not gross up these amounts since you can deduct these types of interest on Schedule A of your tax return.



---



Examples of deductible expenses that will not be grossed up are:

- Mortgage interest & property tax provided for Duplicate Housing
- Discount points (not an expense covered by the Company)
- Prepayment Penalty

**Payments for tax assistance are not paid to you.** Instead, tax payments are calculated and included in your W-2 as withheld taxes. The tax assistance is then submitted to the proper government agencies on your behalf.



**IMPORTANT: Keep records and receipts of all your expenses.** A year-end tax reporting statement that will itemize all of your relocation expenses will be prepared and posted to your relocation portal in January following the end of the tax year.

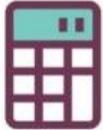


**ACTION REQUIRED: Notify Payroll to update your address and tax forms.**

The Company does not assume responsibility for specific guidance in the matter of filing individual tax returns – this remains your responsibility. You may wish to consult a professional tax advisor for details on the tax implications of your relocation. Along with the seeking the assistance of a professional tax advisor, consider reading **IRS Publication 523 – Tax Information on Selling Your Home** or visiting [www.irs.gov](http://www.irs.gov) for more information.



---



### Tax Summary

Expense	Added to W-2	Taxable Income	Tax Assistance
Pre-Acceptance Trip – Employee Expenses Only	No	No	N/A
Pre-Acceptance Trip – Spouse/Partner Expenses	Yes	Yes	Yes
Home Sale Closing Costs – Buyer Value Option	No	No	N/A
Lease Cancellation	Yes	Yes	Yes
Home Finding Trip	Yes	Yes	Yes
Destination Assistance	Yes	Yes	Yes
Home Purchase Closings Costs	Yes	Yes	Yes
Duplicate Mortgage Interest & Property Tax	Yes	Yes	No <sup>1</sup>
Duplicate Housing Insurance, Utilities, Maintenance & HOA fees	Yes	Yes	Yes
Household Goods Shipment/Storage/Auto	Yes	Yes	Yes
Final Move Travel	Yes	Yes	Yes
Temporary Living	Yes	Yes	Yes
Spouse/Partner Assistance	Yes	Yes	Yes
Pet Transportation	Yes	Yes	Yes
Lump Sum and Additional Payments	Yes	Yes	Yes

<sup>1</sup> Interest payments are considered deductible and will not be tax assisted for income taxes.



---



### Reduction in Force/Workforce Restructuring Subsequent to Transfer Date

The purpose of this paragraph is to clarify Discovery's relocation policy as it may apply in situations where an employee's employment ends due to Discovery's decision to involuntarily terminate the employee's employment without "cause," including for restructuring, following the employee's relocation. At its sole discretion, Discovery may provide additional relocation benefits for an employee whose employment is terminated without cause (most commonly due to a reduction in force or job elimination). An employee who has completed (or is in the process of completing) a relocation within one year prior to the effective date of a qualifying for involuntary termination may be eligible to receive limited relocation benefits to return to their original home location at the time of the Transfer Date with Discovery (i.e., original city and state only).

Benefit entitlements include:

- Shipment of Household Goods back to home location (the entitlement is based on original shipment to the host work location, including up to two (2) vehicles)
- Home sale closing costs, if homeowner
- Lease breakage up to three (3) months, if renter
- Economy airfare, train travel for trip back to home location (Air travel if over 300 miles, per Discovery guidelines) or mileage reimbursement



**IMPORTANT:** The employee must complete a Relocation Notification Form and return it to the Global Mobility team within four (4) weeks (i.e., postmarked or faxed) of the termination date to apply for these benefits. Failure to notify Discovery as stated will forfeit relocation benefits. The employee will have a total of twenty-four (24) weeks from the termination date to complete their relocation and submit approved expenses for reimbursement. Any expenses submitted after the above stated time frame will not be reimbursed.

Employees who voluntarily terminate employment or are terminated for cause or poor performance are not eligible to receive additional relocation benefits and may be required to repay relocation expenses paid under this policy. In addition, if an employee is eligible for relocation benefits from another employer (for example, the employee finds another job in the home location and is eligible for relocation benefits from the new employer), the employee will not be eligible for relocation benefits from Discovery.



---





## **Discovery Communications**

### **International Relocation Benefits**

**Long-Term Assignment  
Effective June 1, 2017**



**Long-Term Assignment**



## Long Term Assignment

CORE BENEFITS include:

	<b>Immigration</b>
	<b>Eligible Dependents May Accompany You</b>
	<b>Transportation To and From Destination &amp; Excess Baggage</b> - Home Leave Allowance & Emergency Leave available
	<b>Shipment of Goods (Air and Surface Shipments)</b> - Shipment of household goods or a Furniture Allowance
	<b>Corporate Housing</b> - Furnished accommodation upon arrival for 30 days
	<b>Housing Differential</b> - Compensation for the difference between home and host locations
	<b>Cost of Living Differential &amp; Rate of Exchange Updates</b> - Compensation for the difference between home and host for basics like meals, incidentals, local transportation, utilities
	<b>Destination Services</b> - Including help setting up your life: finding a home, schools and even the little things like getting your mail forwarded!
	<b>Miscellaneous Expense Allowance (MEA)</b> - Fixed lump sum to help defray expenses outside the relocation package
	<b>Repatriation</b> - Do it again, only in reverse!
	<b>Tax Counseling, Tax Services &amp; Tax Assistance</b> - Limited to assignment-related compensation and benefits only
<b>FLEX BENEFITS AVAILABLE Such as:</b>	<b>Pre-Acceptance and Home Finding trips</b> <b>Tuition differential</b> to help cover the costs of local schools <b>Language and Cultural training</b> <b>Spousal Assistance</b>

---



## Table of Contents

Table of Contents .....	3
Introduction .....	6
How to Use This Guide .....	6
International Relocation Counselor .....	7
Planning.....	7
Defining your Benefit.....	8
Your Benefit Package .....	8
Temporary Assignments .....	8
General Terms and Conditions .....	9
Eligibility .....	9
Eligible Dependents .....	9
Confidentiality.....	9
Personal Data Protection .....	10
Interpretation & Changes in Benefits .....	10
Effective Date.....	10
Assignment/Transfer Effective Date.....	10
Exceptions .....	11
Letter of Understanding.....	11
Relocation Repayment Agreement.....	11
Compensation & Benefits .....	12
Compensation, Benefits, Vacation, Social Security, Retirement .....	12
Company Holidays .....	12
Healthcare Coverage.....	12
Business travel .....	12
Move days.....	12
Core Relocation Benefits.....	13
Expense Reimbursement Benefit.....	13
Visa, Immigration, and Inoculations Benefits .....	14
Allowances .....	15
Travel Benefits .....	16
Company Travel Services .....	16
Assignment Trip/Final Trip.....	16
Emergency Leave .....	16
Home Leave & Eligible Dependents Travel.....	17







Home Leave Allowance .....	17
Eligible Family Member Visit Allowance and Student Visit Allowance .....	17
Temporary Living Pre-Departure & Post-Arrival.....	18
Corporate Housing .....	18
Short-Stay Accommodations .....	18
Furniture Rental Option .....	18
Interim Transportation Pre-Departure & Post-Arrival.....	19
Moving Household Goods.....	20
Air Shipment of Personal Goods .....	20
Shipping Household Goods .....	20
Furniture Allowance in Lieu of Shipment of Household Goods Option .....	21
Surface Shipment in lieu of Air Shipment Option .....	21
In-transit Storage .....	21
Destination Services Benefits .....	22
Home-Finding & Settling-In Services Program.....	22
Mail Forwarding Service .....	22
Miscellaneous Expense Allowance (MEA) .....	23
Tax Benefits.....	24
Tax Counseling/Tax Return Preparation .....	24
Tax Gross-up Benefit .....	25
Tax Equalization Program .....	25
IRS Code Section 409A Compliance .....	25
Assignment Extension, Repatriation Benefits, and Localization .....	26
Assignment Extension .....	26
Localization .....	27
Flexible Benefits .....	28
Pre-Acceptance Trip .....	28
Home-Finding Trip .....	28
Lease Breakage .....	29
Loss on Sale of Vehicle .....	29
Cultural Training.....	29
Language Training .....	30
Spouse or Partner Career Counseling .....	30
School Search for Accompanying Dependents .....	30
Dependent Education .....	30
Resignation & Termination .....	32
Voluntary Resignation Personal Hardship .....	32







Voluntary Resignation.....	32
Involuntary Not for Cause Termination.....	32
Termination for Cause.....	33
Definitions.....	34
APPENDIX A.....	37
Cost of Living.....	37
How Payments are Delivered.....	38
Allowance Updates.....	38
Rate of Exchange Updates.....	38
Goods and Services Differential Updates.....	38
APPENDIX B.....	39
Housing allowances:.....	39
For renters in the home location:.....	39
For homeowners in the home location:.....	39
For renters and homeowners in the home location:.....	40
The allowance calculation:.....	40
Employee Options.....	40
How Payments are Delivered and Updates.....	40
Types of housing.....	41
Information for Home Owners.....	42



---



## Introduction

Congratulations! You are off on an exciting adventure and we want to help prepare you for what's ahead. This guide is designed to educate you about benefits to offset some of your expenses associated with your assignment or relocation. Please be aware that the guide provides a general summary of benefits. A more complete description of your benefits and the terms under which they are provided will be in a Letter of Understanding, specifically drafted for you.

We want you to feel supported, inspired and motivated to perform at your best – because it's only together that we can ignite curiosity in audiences in every corner of the globe.

There are numerous personal, legal and tax issues that may need to be considered with this amazing opportunity. Making well-informed decisions requires an understanding of your benefits and your role in the process.

This guide is an explanation of benefits related to assignments and relocation; it is not an employment offer or employment contract or a guarantee of continued employment. The Company's decisions regarding the application and interpretation of the relocation benefits are final and the Company reserves the right to change or cancel all or any part of these benefits at any time.

### How to Use This Guide



*Throughout this explanation of benefits look for this icon to make the most of these awesome benefits and services. Let us know if you need any help along the way!*



#### **FIRST REQUIRED ACTION**

Please take the time to read this guide carefully as you are responsible for understanding and adhering to guidelines. We want to deliver on our promise of being a great place to work, and we'll need your help.



---



### **International Relocation Counselor**

Discovery (“the Company”) has relocation vendors to assist you in coordinating aspects of your relocation. Upon receiving relocation authorization from the Company, the selected vendor will assign a dedicated International Relocation Counselor (“counselor”) who will be your primary point of contact throughout your move. Your counselor will navigate you through the relocation process and answer any questions. The section below on [Expense Reimbursement Benefit](#) explains how to work with your counselor to make the most of this benefit.

Immigration and tax vendors may also be engaged to assist you in coordinating these aspects of your relocation, if necessary. If your move requires immigration or tax services, the Company will assist you.

### **Planning**

The Company encourages you to become fully involved in your relocation and to work closely with the professionals hired to help you. The more actively you participate the more effectively the relocation vendors can assist you. Planning a move with a clear understanding of these benefits will also help to avoid unpleasant surprises. The most successful moves are those that are well planned.



---



## Defining your Benefit

The Company provides a suite of CORE relocation and assignment benefits. Examples of core benefits are immigration, transportation to your destination, and tax services. Depending on the circumstances and business case, you may also receive some FLEXIBLE benefits. At the start of your assignment or transfer, you will receive a Letter of Understanding outlining the specific benefits you will receive.

### Your Benefit Package

#### Temporary Assignments

An "Assignment" means you have been chosen for a special and specific, temporary work assignment in a location other than your home employment country, with a defined start and end date. You will be treated as an expatriate and remain on your home payroll. At the end of this assignment, you will return to your point of origin, also referred to as your home country.

A **Long-Term Assignment** is greater than 365 days and not longer than 3 years. There is no guarantee, however, that you will be offered another assignment. Should your Long-Term Assignment extend beyond three years, and the intent is for you to make this a permanent move, you will, at the direction of your management, be **Localized** to your host country.



---



## General Terms and Conditions

### Eligibility

You are eligible for assistance described if:

- a) You are a current, full-time employee, or a new hire, and
- b) You are requested to relocate by the Company and are designated as eligible to receive these benefits
- c) You qualify for immigration support in the host country, if necessary

If you are receiving any relocation benefits through a third party such as your previous employer or via your spouse/partner, you are required to disclose this information to the Company. The Company, at its sole discretion, may offset or withdraw any or all benefits for your relocation.



### Eligible Dependents

For certain assignments longer than 183 days you may be eligible to be reimbursed for qualifying expenses of any eligible dependent who accompanies you.

Eligible Dependents– For purposes of accompanying you on an assignment or relocation, eligible dependents include your:

- current spouse (including a common-law spouse according to applicable law) or domestic partner
- any child age 18 or under who is in your legal custody or the custody of your accompanying spouse or domestic partner and who depends upon you for financial support
- any unmarried son or daughter up to age 25 who is a registered full-time student working toward a degree, who qualifies for immigration support

### Confidentiality

Vendors may be based outside of your home country and/or the European Economic Area (“EEA”) and therefore personal data may be processed or transferred outside of your home country and/or the EEA for the purposes of administering your assignment.

In order for our vendors to administer the provisions of this guide, the Company provides certain employee information to vendors such as base salary, tax information or information regarding dependents, should they be authorized to accompany you. Our vendors and their employees are obligated to maintain the confidentiality of your personal information and use it only for the purposes set forth in this relocation guide.



---



### **Personal Data Protection**

You should be aware that privacy laws in many countries may differ significantly from those in your home country. These variations may impose legal requirements and/or limitations on the access, processing, and transfer of personal data (yours and others) while you are relocating or on assignment. In agreeing to the relocation, you expressly consent to your personal data (and your family's personal data) being processed or transferred outside of your home country and/or the EEA for the purposes of administering your assignment. Consult with your host HRM for more information if you have questions.

### **Interpretation & Changes in Benefits**

This guide establishes the criteria for receiving payment or reimbursement for your relocation and/or assignment expenses. Expense limits and payment guidelines are established by Human Resources and administered by the Global Mobility team. This document provides most of the information you will need to know about your benefits. However, the Company reserves the right to end, suspend or amend these benefits at any time without notice. Further, the Company retains the ultimate discretionary authority to establish and interpret the provisions of this guide and determine eligibility for benefits.

### **Effective Date**

This guide describes the provisions of Company Relocation Benefits effective as of June 1, 2017. It replaces all relocation benefits and materials issued prior to that date.

### **Assignment/Transfer Effective Date**

If you are on temporary assignment, the effective start date and end date of your assignment are determined by your business unit. Your effective start date of a temporary assignment is typically the day you depart from your home country. The effective end date is the day you return to your home country.

If you are a permanent transfer, the effective start date is determined by your business unit. It is typically the hiring date in your hiring location.

The date at which point you begin receiving relocation benefits is agreed upon and managed with the relocation vendor.



---



### Exceptions

You must complete a Company Exception Request form to request any deviations or exceptions from this explanation of benefits. Please see your counselor for details. The Company Global Mobility team has the sole discretion to approve any exception requests prior to any reimbursement. **Neither your manager nor division head has the authority to grant any exceptions to these benefits.**

### Letter of Understanding

Terms of your temporary assignment or relocation will be documented in a Letter of Understanding.



**ACTION REQUIRED: You must sign and return the Letter of Understanding** before any relocation services can start and any payments can be processed.

N.B. If you are under an Employment Agreement, terms of relocation will be documented in your Agreement. If you are under an Employment Agreement, we must receive a copy of your Agreement before any relocation services can start and any payments can be processed.

### Relocation Repayment Agreement

Relocating an employee requires a substantial commitment by the Company. Therefore, if you should elect to voluntarily terminate your employment with the Company during the 12-month period immediately following your effective start date in the new location, you will be required to repay the Company all third-party costs incurred by the Company.



**ACTION REQUIRED: You must sign and return a Relocation Repayment Agreement** before any relocation services can start and any payments can be processed.

If you are under an Employment Agreement and relocation repayment is addressed in your agreement, or if your assignment is less than 12 months in duration, the Repayment Agreement is not necessary.



---



## Compensation & Benefits

### Compensation, Benefits, Vacation, Social Security, Retirement

While on temporary assignment, you remain on your home country compensation, benefits and vacation, Social Security, and retirement plans. The performance metrics for your annual bonus will be based on your assignment, in accordance with the terms and conditions of the applicable bonus plan. If you have questions, please see your Human Resources Manager (HRM).

### Company Holidays

You follow the company holidays observed in your host country.

### Healthcare Coverage

You remain on healthcare plans from your home country if feasible and permitted during the period of assignment. For most assignments over six months, however, you may be authorized to receive Medical, Dental, Vision, Medical Evacuation and Repatriation benefits through an International Expatriate Benefits plan. Please see your HRM and Benefits team for an explanation of plans available.

### Business travel

The Company provides **business travel** medical insurance when traveling for business outside your country of **residence**. Refer to the HR section of the *One Discovery Portal* for details on Business Traveler Insurance. The plan covers 100% of most professional medical services such as doctor visits, surgeries, in hospital stays, and dental emergencies.



**ACTION REQUIRED: Please enroll in the business travel plan** by visiting *One Discovery Portal*.

#### REMINDER FOR CURRENT EMPLOYEES:



**ACTION REQUIRED:** Remember to cancel parking or other automatic payroll deductions specific to your home location for your assignment period.

### Move days

You are allowed up to three (3) days off from work pre-or post-relocation to attend to packing and/or settling-in. This benefit is to be agreed upon with your HRM and hiring manager.



---



## Core Relocation Benefits

The following benefits are core relocation benefits available depending on the circumstances and business case. Please see your relocation counselor for details on your specific benefits.

At the start of your assignment your Letter of Understanding outlines amounts and delivery of core benefits.

### Expense Reimbursement Benefit

Your relocation counselor assists you with administering the reimbursement of reasonable, necessary and properly authorized expenses covered under these benefits. If you have questions about this process, please contact your counselor.

You are expected to manage expenses at a conservative level and to be familiar with which expenses are reimbursable and which are not. You will receive additional information on reimbursable expenses under these benefits. The Company, at its discretion, may choose not to reimburse, in full or in part, an expense that is deemed unreasonable or excessive. All expenses, unless otherwise specified, must be in accordance with the Company's relocation/assignment benefits. Receipts are required for all reimbursable expenses. **Credit card statements cannot be used in lieu of receipts.**

Please contact your relocation counselor for assistance in setting up your account for reimbursements, if applicable. **It is important to remember:**

- Relocation expenses are separate and distinct from business expenses
- Business travel and entertainment expenses should be incurred and submitted in accordance with the [Travel and Entertainment Policy](#)
- Relocation benefits are NOT business expenses and must not be treated the same way as business expenses
- **If you incur a relocation-related expense on your COMPANY CORPORATE CREDIT CARD in error, you should reconcile it as a personal expense on the corporate card and then separately submit for reimbursement under the relocation expense process**
- You should keep records and original receipts of all expenses, as this will assist in the completion of home and host country tax returns at year-end
- Cash payment may not be substituted or exchanged for any specific benefit unless explicitly indicated
- Any unused benefits are not interchangeable for or may not be replaced by any other benefits or cash monetary value



Long-Term Assignment

---



- All requests for reimbursements must be submitted on or prior to the last day of the taxable year following the taxable year in which such expenses were incurred. Please note: tax years may vary by country. Please seek further guidance from your tax advisor

If you have questions about this process, please contact your relocation counselor.



## Visa, Immigration, and Inoculations Benefits

Proper documentation to legally work in host location is essential.

The Company arranges and/or reimburses for:

- Your visa application, including your work visa
- Your authorized accompanying eligible dependents' visas, as necessary (the Company does not arrange special work visas for dependents, other than what is available as an accompanying dependent)
- Travel to and from the embassies/consulates for filing and obtaining immigration approval
- If necessary, reasonable meals and hotel costs
- Visa photos
- Inoculations required for travel to the host location

You and your authorized accompanying eligible dependents must pass all medical examinations that the host or hiring country requires as a condition for providing required visas, work permits, or both.



**ACTION REQUIRED:** You must have the legal right to work or perform duties in your destination. Please work with the immigration counselor to ensure compliance.

Immigration services are available to keep you *and* the Company compliant. You must have your immigration in place before work or duties are performed in your destination.



**ACTION REQUIRED:** On your first day of work in your destination, you **must** present your immigration documentation to local HR.



---

## Allowances

There are a number of allowances or benefits you may receive on assignment including a cost of living allowance, a housing allowance, and a transportation allowance.

At the start of your assignment, you will receive a **Letter of Understanding** which outlines the type, amount, and delivery of allowances. Depending on the duration of your assignment, the amount of the benefits and allowances may change over the course of your time abroad due to rate of exchange updates, changes in the cost of living, and inflation. If you separate from the Company for any reason while on assignment, the Company discontinues all allowances, as well as all reasonable and actual expense reimbursements, on the date your termination is effective.



### Host Living Expense Allowance

The Company may provide an allowance to cover some living expenses in the host locations. Depending on the duration of the stay and the location, the allowance may be a Cost of Living Allowance (COLA), or a daily rate (*Per Diem*). Please see [Appendix A](#) for calculation methodology, delivery details, and update schedules.



### Host Housing Allowance

The Company may provide an allowance to cover the difference between the cost of housing in the home and host locations. If the cost of housing is less in the host location than in your home location, you will not receive a housing allowance. Please see [Appendix B](#) for calculation methodology, delivery, and update schedules as well as types of housing available.



### Host Transportation Allowance

The Company may provide an allowance to offset some transportation expenses in the host location. Depending on the duration of the stay and the location, the allowance may be included in your *Per Diem* or COLA, in which case it is updated on the same schedule. If the cost of transportation in the host location is less than in your home location, you will not receive a transportation allowance or reimbursement. In some cases, you will receive a separate allowance depending on the host country's local practice.

---



## Travel Benefits

### Company Travel Services

This relocation guide governs in conjunction with Entity Level Control Policy Manual ELCPM 130 – 1 Corporate Travel and Entertainment Policy ([Travel Policy](#)).



**ACTION REQUIRED: If you are a current employee**, assignment travel arrangements must be booked through the Company’s Travel Services Department per Travel Policy.



**ACTION REQUIRED: If you are newly hired by the Company** and don’t have the Travel Policy, please coordinate travel and reimbursement with your relocation counselor.

### Assignment Trip/Final Trip

The Company covers assignment trip expenses including:

- **Assignment Trip:** One-way airfare per Travel Policy in effect at the time. Class of travel in line with Travel Policy in effect at that time. Class of travel for dependents to be the same as yours (or per instructions from your manager)
  - Reasonable hotel and taxi for the final trip from the home location to the host location (per Travel Policy)
  - Actual meal expenses will be reimbursed after submission of receipts. The allowable daily amounts are based on Travel Policy, dependents under 18 are reimbursed up to 50% of the allowable daily amounts
- **Excess Baggage:** Excess checked baggage fees for two additional bags beyond the number of bags permitted without charge by the airline (four additional bags if you are traveling with dependents)

*If you need temporary housing or short stay accommodations, please refer to the [Temporary Living section](#) for meal allowances and payments.*

### Emergency Leave

If required, up to 7 days of emergency leave may be allowed during the year (any 12-month period) during the assignment for you and eligible dependents.

Circumstances for emergency leave may include:

- Medical emergencies in the host country such as serious illness or injury for you or your dependents, that require medical services not available in the host country

---



- Death or serious illness of an immediate family member in the home country, such as a parent, grandparent, brother, sister, child not residing with you in the host country, or grandchild

Travel arrangements and class of travel must be in accordance with the Travel Policy in effect at that time. An employee traveling without dependents will be reimbursed up to one (1) checked bag. An employee traveling with eligible dependents will be reimbursed up to a maximum of three (3) checked bags.

- Transport to and from the airport is not reimbursable
- Meals, meal allowances, accommodations and miscellaneous expenses are not reimbursable

### **Home Leave & Eligible Dependents Travel**

#### **Home Leave Allowance**

You may be eligible for a cash allowance to purchase transportation for a home leave. The home leave allowance is delivered via home payroll. The allowance is available after six months on assignment. Thereafter, the allowance is available for each full year on assignment and delivered on or around your assignment anniversary. The allowance is grossed up at the time of payment. There is no tax impact to you. If you are tax equalized, the allowance is equalized. Additional travel expenses such as transport to and from the airport, baggage or meals and accommodations are at your expense and are not reimbursable.

#### **Eligible Family Member Visit Allowance and Student Visit Allowance**

If authorized, you may receive a cash allowance to purchase transportation for non-accompanying eligible family to visit you in your assignment location. The allowance is based on estimated costs for transportation between the home location (regardless of where the family member is physically located) and the host location. The allowance is based on Travel's lowest roundtrip airfare. The home leave allowance is delivered via home payroll. The allowance is available after six months on assignment. Thereafter, the allowance is available for each full year on assignment and delivered on or around your assignment anniversary. The allowance is grossed up at the time of payment. There is no tax impact to you. If you are tax equalized, the allowance is equalized. Additional travel expenses such as transport to and from the airport, baggage or meals and accommodations are at your expense and are not reimbursable.



---

## Temporary Living Pre-Departure & Post-Arrival

### Corporate Housing



You've packed up your house and are ready to move, but you haven't found a place in your host location? Not a problem! Corporate housing is provided through Company-approved properties. Housing is paid for on your behalf. Corporate housing offers:

- Fully furnished apartments including linens, utilities, internet access, crib costs, telephone service with the exception of long-distance personal phone calls, television, and depending on the location, one parking space. The size of the apartment will be in line with your family size, not to exceed 3 bedrooms
- If corporate housing is not available or doesn't have a kitchen or laundry facilities, the Company will reimburse reasonable meal and laundry expenses based on the Travel Policy. Children under 18 are reimbursed up to 50% of the allowable daily amounts
- The Company provides up to thirty (30) days of temporary living accommodations in any combination of the home and host country depending on your needs
- Personal long-distance telephone charges, meals, and other incidentals are at your expense. These costs are calculated in your *Per Diem* or COLA, explained [above](#).

### Short-Stay Accommodations

If corporate housing is not available, you may be authorized up to two (2) weeks in the home and/or host country in a Company preferred hotel.

- The daily hotel rate cannot exceed the Travel Policy maximum hotel rate
- If you stay in a hotel, the Company will reimburse reasonable meal and laundry expenses based on Travel Policy. Children under 18 are reimbursed up to 50% of the allowable daily amounts

### Furniture Rental Option

If you signed a long-term lease and would prefer to move directly into the long-term lease accommodation, the Company will provide a furniture rental package in lieu of temporary corporate housing accommodations. The benefit is for the same duration as your temporary accommodations benefit.

The Company will not pay cash settlement in lieu of furniture rental or temporary living accommodations.

---



**Interim Transportation Pre-Departure & Post-Arrival**

Interim transportation to and from work for up to 30 days in any combination of your home or host/hiring country may be authorized.

At the start of your assignment your Letter of Understanding outlines the interim transportation you will receive and/or an estimate of the allowances, if applicable.



**Long-Term Assignment**

---



## Moving Household Goods

### Air Shipment of Personal Goods

For assignments greater than six months, Company may pay or reimburse for an air shipment up to 300 pounds per adult (100 pounds per child) to transport personal belongings.

### Shipping Household Goods

Company may provide a shipment of **Household Goods** (HHG) as follows:

- Single Employee and Employee plus one (1) dependent: one (1) 20-foot container (or equivalent in cubic feet/meters)
- Employee plus two (2) or more dependents: one (1) 40-foot container (or equivalent in cubic feet/meters)

Moving expense only apply for moving HHG once from home country residence or location to host/hiring country residence or location. Delivery of HHG must be arranged for business days to avoid additional charges. Should circumstances require a weekend delivery schedule, please contact your counselor.

The following goods and services are **not covered**. The Miscellaneous Expense Allowance (MEA) benefit explained below is provided to cover these types of expenses.

- Appliances
- Picking up or dropping off furnishings of secondary homes or items in storage
- Shipment of hazardous materials such as explosives, chemicals, flammable materials, firearms, garden chemicals
- Shipment of hot tubs/spas, sheds, aboveground pools
- Valuables such as jewelry, currency, dissertations or publishable papers, and other collectibles or items of extraordinary value
- Removal, disassembling or installation of carpeting, drapery rods, storage sheds or other permanent fixtures
- Shipment of boats, recreational vehicles and unusually heavy or cumbersome hobby materials
- Pickups or deliveries at any location other than your primary residence
- Special packing or transportation of frozen foods, plants, wine collections or other perishables
- Moving or shipping items such as trees, shrubs, construction materials, firewood, livestock and other non-domestic and domestic animals
- Tips or other gratuities to the moving company's employees
- Any services performed by you, your dependents or relatives

---



- Special charges associated with assembly or disassembly of personal furnishings (exclusive of beds), antiques, specialty items, satellite dish/antennae, swing sets, patio furniture, or other outdoor fixtures
- Unpacking assistance (organizing, maid, hanging, fixing to walls, etc.); assembly of items that had to be disassembled before shipping will be covered (exclusive of beds, which is covered)
- Cost to board, ship, and quarantine pets (your counselor can provide recommendations for pet transportation services)

#### **Furniture Allowance in Lieu of Shipment of Household Goods Option**

The furniture allowance is meant for the purchase of furniture and household goods; however, the use of the allowance is at the employee's discretion. Receipts will not be necessary for reimbursement, but as with all expenses relating to relocation, it is recommended that receipts be kept and tracked for year-end purposes. Please see your relocation counselor or tax advisor for additional information regarding keeping receipts associated with relocation.

If you would like to opt for a furniture allowance in lieu of shipment of household goods, the option is available under the following guidelines.

- Allowance must:
  - be based on the home/host locations
  - not exceed the cost of the surface shipment
  - be delivered at the start of the assignment via payroll
- Is grossed up for taxes and equalized, if you are tax equalized
- At the end of the assignment, you must dispose of the furniture or ship the furniture independently as an out-of-pocket expense

#### **Surface Shipment in lieu of Air Shipment Option**

The air shipment may be combined with a surface shipment if the cost of the combined surface shipment does not exceed the cost of the air plus surface shipments.

If the cost of a combined shipment exceeds the cost of the individual shipments, the employee needs to pay the difference out-of-pocket.

#### **In-transit Storage**

Storage of goods is provided as needed for the duration of your temporary housing stay only. You may use any combination of the storage benefit between the home and host country.



---



You should be aware that not all household goods can be transported internationally due to limitations in the host country, and may require long-term storage at your expense (for which you received the MEA). Your relocation counselor can provide you with specific limitations pertinent to your relocation.



## Destination Services Benefits

### Home-Finding & Settling-In Services Program

Depending on location and your family size, the Company may sponsor a program in the host/hiring country using a preferred vendor to assist you with finding a longer-leased property, and settling-in services. Please see your relocation counselor to assist you with coordination of the following benefits, if applicable.

Examples of **home-finding services** include:

- Visiting properties
- Vetting leases
- Making security deposits
- Setting up monthly rental payments

Settling-in services may include assistance for the employee and spouse/partner with anything that is necessary to carry out business and home-related tasks in the host/hiring country, such as:

- Emergency procedures (police, emergency room, walk-in ambulatory care procedures)
- Local government registration, if applicable
- Banking and school registration assistance
- Driver license/auto registration, plus explanation of auto insurance
- Shopping fundamentals (grocery, appliance, furniture stores)
- Medical facility(s) options (doctor visits, medical insurance process)
- Community referrals (doctors, dentists, insurance agents, etc.)
- Network into international community (clubs, organizations)
- Recreation/leisure options & places of worship
- Rental Furniture assistance, if needed

### Mail Forwarding Service

- You may be eligible for a mail forwarding service for the first three (3) months of transfer. Please consult with your relocation counselor for details and coordination of this service.



---



### Miscellaneous Expense Allowance (MEA)

A Miscellaneous Expense Allowance (MEA) is provided for expenses and incidentals not covered by the relocation benefits provided by the Company.

The following expenses and services, if required, are not eligible for reimbursement **and are expected to be paid by the employee from the Miscellaneous Expense Allowance (MEA):**

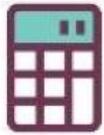
- Boarding or shipment of pets
- Appliances including TVs or electrical items that cannot transfer to a foreign country
- Replacement appliances, if applicable
- Extra pickup/drop off of household goods
- Excess shipping or special packing costs, duty tax
- Long-term storage
- Replacement automobile(s)
- Driver's licenses
- Telephone costs
- Extended temporary housing above relocation benefit limits
- Additional tax consultation services above and outside relocation benefit limits

The MEA is subject to applicable withholdings, is not tax protected, is not eligible for tax gross-up and is paid net of any wage or income taxes. This payment is delivered via payroll at the start of the assignment or relocation.

The MEA is based on the duration of the assignment or type of transfer.

The MEA is based on one-month's salary, not to exceed USD \$25,000 (or home-country currency equivalent at current exchange rates).

---



## Tax Benefits

### Tax Counseling/Tax Return Preparation

The Company provides tax consultation with a designated accounting firm for assignments and transfers with multi-jurisdictional tax obligations as a result of their assignment or transfer.

For assignments, this benefit is provided for each year in which you receive assignment-related compensation and benefits.

For Permanent transferees, this benefit is for the year of transfer and following year (if required). The allowance for the tax consultation and tax filing fees related to your relocation depends on the home and host/hiring country. If you prefer to use your own tax provider, you will be eligible for reimbursement through the relocation provider for tax service fees, up to the allowance cap, upon submitting receipt for payment.

A tax "menu" will be provided to you outlining the specific benefits authorized.

- It is your responsibility to work with the designated accounting firm so that you are aware of all applicable tax implications as a result of your relocation. You are responsible for submitting any required tax filings and any associated payments.
- The tax consultation benefit is only provided for tax services related to you and your relocation between the home country and the host country. Tax advice is for the employee only and spouses are not covered under this benefit
- The designated accounting firm will be paid on your behalf up to the maximum benefit authorized depending on your home and host locations
- Any tax advisor services that are in excess of the allowance will be your responsibility
- This benefit will be provided for each year in which you receive assignment-related compensation. It is not an on-going benefit for permanent transfers



**ACTION REQUIRED: If you require tax services, you must sign and return the tax menu** in order for services to commence.

---



### **Tax Gross-up Benefit**

If you are taxed on relocation benefits in the home or hiring country, the Company may offset the additional tax burden on those items deemed imputed income in accordance with governing tax laws. The Company will provide this benefit to you in the year immediately following the assignment year and once tax returns have been filed and completed. This benefit payment is grossed up for taxes.



**ACTION REQUIRED: If you require tax gross-up, you must sign and return the tax menu** in order for gross-up services to commence.

### **Tax Equalization Program**

The Company tax-equalization program is designed to ensure that the Company meets its legal and personal-income/social-tax commitments to the governments of the locations where the Company does business. The Company program also aims to neutralize the effect of personal income/social taxes (at the home and host locations) from the conduct of business. By equalizing employees, the Company assumes some of the risk associated with changes in location or the timing of assignments. ***Please refer to the Tax Equalization benefit guidelines, which will be provided separately, for details.***



**ACTION REQUIRED: If you require tax equalization, you must sign and return on the tax menu** in order for tax equalization services to commence.

### **IRS Code Section 409A Compliance**

Although the Company does not guarantee any particular tax treatment relating to the benefits provided under these Relocation Benefits, it is intended that such payments and benefits be exempt from, or comply with, U.S. Tax Code Section 409A. All taxable expenses or other reimbursements under these benefits shall be payable in accordance with the Company's policies in effect from time to time, but in any event, shall be made on or prior to the last day of the taxable year following the taxable year in which such expenses were incurred by or on behalf of, and no such reimbursement or expenses eligible for reimbursement in any taxable year shall in any way affect the expenses eligible for reimbursement in any other taxable year. The right to such expenses and reimbursements shall not be subject to liquidation or exchange for another benefit, payment, or reimbursement.



---



## Assignment Extension, Repatriation Benefits, and Localization

### Assignment Extension

The business may need to extend your assignment. Depending on the length of your assignment and the expected extension, some benefits may change. Your relocation counselor will coordinate appropriate benefits to accommodate an extension.



### Repatriating to the Home Location

If you are returning from an assignment to a Company site as an active employee, you may receive the following assistance, in accordance with your expatriation benefits:

- **Final Trip:**
  - See **TRAVEL** section above
- **Departure Services:**
  - Host Destination Service Provider – one day service to assist with closing lease and utilities and general shut-down of rental property
- **Household Goods Shipment:**
  - **Air Shipment:** same benefit upon expatriation
  - **Surface shipment:** *If you had household goods shipment at the start of your assignment:* same benefit upon expatriation
- **Temporary Living:**
  - Pre-departure or post arrival temporary living expenses at the home or host location for up to 30 days in authorized corporate housing
- **Temporary Transportation:** Please see your relocation counselor to assist you with coordination of these benefits, if applicable.
- **Repatriation MEA:** If you have been on assignment longer than two years, you may receive an MEA of up to two-weeks salary not to exceed USD \$10,000 (or home-country currency equivalent at current exchange rates). The repatriation MEA is subject to applicable withholdings, not tax protected, not eligible for tax gross-up and is paid net of any wage or income taxes. This payment is delivered via payroll upon the start of the assignment repatriation. If you are being relocated to another location by the Company, and the relocation package includes an MEA, you may receive either the repatriation MEA or the relocation MEA, not both.

**NOTE:** The Company will not pay you a cash settlement in lieu of repatriation benefits.



---



### **Localization**

The Company may establish and implement practices for localizing employees on assignment. Localization means you are hired permanently into the host location. Localization adjusts your compensation package so that it resembles the compensation of a local citizen or legal permanent resident at the host location. The Company may adjust compensation such as base salary; premiums and allowances; health and welfare benefit plans; savings and pension schemes; and other benefits such as holidays, vacation schedules, and employee programs. Most importantly, under localization, assignment benefits cease.



---



## Flexible Benefits

The following benefits are flexible options and available depending on the circumstances and business case. Please see your relocation counselor for details on your specific benefits.

At the start of your assignment your Letter of Understanding outlines amounts and delivery of flexible benefits, if applicable.



### Pre-Acceptance Trip

Prior to accepting an offer of employment, the Company *may* provide you and your spouse/partner (no children, dependents, or other relatives) one trip, not to exceed 7 days including travel time, to the potential hiring location to tour the area, view housing options, and meet with local school officials (if necessary).

### Home-Finding Trip

Prior to relocating, the Company *may* provide you and your authorized dependents one trip, not to exceed 7 days including travel time, prior to moving to secure a residence. Expenses for extended dependents or other third parties (in-laws, parents, siblings, uncles or aunts, nanny, etc.) are not eligible for reimbursement and you may not substitute an extended family member or other third party in lieu of children, spouse or partner. Any expenses associated with extended, non-authorized dependents will not be reimbursed.

The Company may reimburse Pre-Acceptance and/or Home-Finding trip expenses including:

- Airfare per [Travel Policy](#) in effect at the time. Class of travel for your spouse/partner is based on the class of travel for which you are eligible and in line with Travel Policy in effect at that time
- Hotel room rates per Travel Policy will be reimbursed to eligible trip participants
- Taxi/rental car will be reimbursed to eligible trip participants
- Actual meal expenses will be reimbursed after submission of receipts per Travel Policy
- For Home-Finding travel: Actual meal expenses will be reimbursed after submission of receipts per Travel Policy; children under 18 are reimbursed up to 50% of the allowable daily amounts
- Childcare costs may be reimbursable during the Pre-Acceptance and the Home-Finding trip if you have children remaining at home. This is payable only in the event that qualified providers are used and is not payable to dependents.



---



The Company may provide an Accompanied Program using a preferred Destination Service provider to assist in locating suitable housing or school orientation during either trip.

You will work with the relocation or school specialist in advance to arrange school visits.

If a Pre-Acceptance or Home-Finding Trip is not taken, you will be provided with Destination, Home-Finding, and/or School Search Services upon arrival at your destination.

Approval of Pre-Acceptance or Home-Finding trips is determined solely at the discretion of the Company based on needs and circumstances.

If a Pre-Acceptance trip has been taken, the Home-Finding Trip may be modified or waived by the Company.

**NOTE:** If you are going on Assignment or Local Plus, and the Company has determined your housing differential or allowance, the Company will notify you and the Relocation vendor of your authorized housing differential or allowance in advance of your trip. You will be shown properties only within your authorized budget.

#### **Lease Breakage**

If you are a renter, it is your responsibility to provide the landlord with the proper and required notification to terminate the lease per the lease agreement. Lease breakage costs may be reimbursed only if you are not able to provide the required advance notification. If a lease termination penalty is incurred, you may be reimbursed up to a maximum of three (3) months of reasonable and actual rent. A copy of the original lease and proof of payment is required for reimbursement.

#### **Loss on Sale of Vehicle**

Loss on the sale of vehicle(s) owned by you is provided for up to two (2) vehicles and capped at USD \$2,500/one (1) car and USD \$5,000/ two (2) cars (or home-country currency equivalent at current exchange rates). You may be reimbursed for the difference between the documented appraised value and the actual sale amount not to exceed the maximum amounts noted.

Generally, automobiles are not transported to the hiring country. However, the shipment of an employee's car may be provided if you are permanently relocating within country or intra-regionally.

#### **Cultural Training**

The Company may coordinate or reimburse for the cost of a two-day cultural training program. Training may be provided in the home location prior to departure or at the host/hiring location upon



---



arrival. Training is designed for adults and services are based on a needs assessment. Please see your counselor for eligibility and details.

#### **Language Training**

The Company may coordinate or reimburse the cost of language training. Training may be provided in the home location prior to departure or at the host/hiring location upon arrival. Training is designed for adults and services are based on a needs assessment. Please see your counselor for eligibility and details.

#### **Spouse or Partner Career Counseling**

The Company may coordinate or reimburse for the cost of counseling or outplacement services for working spouses/partners during the initial year of the transfer using preferred vendors. Spouse/partner transition assistance will help the accompanying spouse/partner acclimate to the host/hiring country/area. Services are based on a needs assessment, the host/hiring country visa requirements, and the spouse/partner's objectives. Support can be provided for job search, pursuing education, training, volunteer opportunities or other career development pursuits. Please see your counselor for eligibility and details.

#### **School Search for Accompanying Dependents**



Assistance in finding the proper school for your accompanying eligible dependent children may be authorized. Services are based on a needs assessment. Please see your counselor for eligibility and details.

#### **Dependent Education**

You may be eligible for private education tuition differential for dependent children in elementary through secondary school (excludes preschool and post-high school such as college, university, or trade school) who will live with you in a foreign location.

The allowance is based on quality, availability, and the need to place children in private education in the host country. In some instances, private education may not be necessary and therefore not be covered.

This benefit is to cover the difference between home country and host country expenses for:

- Tuition
- Registration and administration fees
- Books



---



If your child attended public school in the home country but private tuition is necessary in the host country, the tuition allowance is based on the full tuition cost. If your child attended private school in the home country, the education allowance is calculated as the difference between the home country expense and the host country expense. If eligible, you will be reimbursed for the difference between home and host or the expenses incurred during the normal school year curriculum at one educational institution per child.

The following miscellaneous items are not covered and not eligible for reimbursement:

- The cost of special programs, field trips, scouting, and recreational or extracurricular activities
- The cost of lunches, yearbooks, stationery, school supplies, and uniforms
- The cost of participating in sports, or the cost of sports equipment supplies or uniforms
- The cost of transportation to and from school
- Preschool, child daycare, or nursery costs
- Room and board
- Tuition for post high school education such as college, university, or trade school



**ACTION REQUIRED:** To receive reimbursement, you must submit home invoice(s) to your relocation counselor itemizing the expenses incurred at home to reimburse you for the difference in cost in the host location. You must submit invoice(s) to your relocation counselor itemizing the expenses incurred. The relocation vendor will reimburse you.

---



## Resignation & Termination

If you are under an Employment Agreement, please refer to your agreement for terms of Resignation and Termination.

### **Voluntary Resignation Personal Hardship**

If you resign from the Company due to a personal hardship, the Company may repatriate you and eligible dependents to your home country. Any Company-sponsored visas will be revoked.

Personal hardships may include, but are not limited to, divorce, a death in the family, a serious illness or a condition that requires treatment in the home country or a situation that renders you unable to continue employment. You must notify the Company of your request to repatriate and provide sufficient information for the Company to determine whether a personal hardship exists. If approved, you will have up to six (6) months from your termination date to use these benefits, subject to any visa requirements.

Repatriation under personal hardship will be evaluated on a case by case basis and may include tax services, if necessary, until the Company deems all required tax compliance, equalization or reconciliations are satisfied.

Under these circumstances, the Repayment Agreement may be waived.

### **Voluntary Resignation**

If you voluntarily resign while on assignment, you will forfeit all repatriation benefits. Any Company-sponsored visas will be revoked.

**Under no circumstance will repatriation benefits be provided in the event of a voluntary termination to accept a new position outside the Company.**

Voluntary resignation also may violate the Repayment Agreement and subject you to reimburse the Company for some of the costs incurred by the Company in your assignment (MEA, relocation expenses, and travel expenses). Refer to your Repayment Agreement.

### **Involuntary Not for Cause Termination**

If you are terminated due to a job redundancy, reduction in force, job elimination, or for any other reason except "For Cause," any Company-sponsored visas will be revoked and you will be repatriated to your home location. Please refer to your [Repatriation](#) benefits for a list of your entitlements.



---



Repatriation benefits may include:

- Lease breakage in the host location up to the Company-authorized housing differential
- Tax services, if necessary, until the Company deems all required tax compliance or tax equalization is satisfied
- If the assignment was intended to be longer than two years, and you are terminated involuntarily before having been on assignment for two years, you may receive a Miscellaneous Expense Allowance.



**ACTION REQUIRED: You have four (4) weeks to notify the Company of your intent** to use repatriation benefits and you will have up to three (3) months from your termination date to use this benefit, subject to visa requirements.

Any severance benefits will be in accordance with the home country Company policy that is in effect at that time.

#### **Termination for Cause**

If you are terminated for Cause during your assignment, as defined by Company policy, you are not eligible for repatriation benefits except as may be required by law. Any Company-sponsored visas will be revoked. Tax preparation services may continue to be required until the Company's tax provider deems all required tax compliance and/or tax equalization obligations are satisfied. This may require you to remit payment for costs incurred for your relocation. "For Cause" shall mean the commission of any of the following acts in Company's sole determination:

- the conviction of, or nolo contendere or guilty plea to, a felony (whether any right to appeal has been or may be exercised)
- conduct constituting embezzlement, material misappropriation or fraud, whether or not related to employee's employment with the Company
- conduct constituting a financial crime, material act of dishonesty, or conduct in violation of Company's Code of Business Conduct and Ethics
- improper conduct substantially prejudicial to the Company's business or reputation
- willful unauthorized disclosure or use of Company confidential information
- material improper destruction of Company property
- willful misconduct in connection with the performance of your duties
- conduct inconsistent with the general policies and practices of the Company



---



## Definitions

**Accompanied** – The employee is accompanied if the business has authorized an eligible dependent to travel with the employee at the Company's expense to the host location.

**Base Salary** – The regular compensation, determined by the business, that the employee receives as part of the regular salary payment to do the job required within the hours agreed excluding shift, overtime, bonuses, allowances, premiums, and benefits.

**Counselor** – Relocation counselor designated to assist the employee with relocation benefits.

**Designated Accounting Firm (DAF)** – The firm the Company selects to provide the employee with tax services while on assignment.

**Designated Cost-of-Living Data Firm (DCF)** – The firm the Company selects to provide cost-of-living data, including goods and services, transportation, and housing allowances.

**Designated Relocation Firm (DRF)** – The firm the Company selects to provide the employee with relocation and destination services.

**Eligible Dependents** – for purposes of accompanying the employee on an assignment or relocation, eligible dependents include the:

- current spouse (including a common-law spouse according to host country law) or domestic partner;
- any child age 18 or under who is in the legal custody or the custody of the accompanying spouse or domestic partner and who depends upon the employee for financial support;
- any unmarried son or daughter through age 25 who is a registered full-time student working toward a degree.

**Emergency Medical Services Firm** – The firm the Company selects to provide the employee and the authorized accompanying Eligible Dependents with medical assistance, including referrals, hospital admittance assistance, and evacuation when medically necessary. The employee qualifies for such services when the employee is on assignment or international business travel.

**Global Mobility** – The corporate organization that administers international assignments and relocations.

**Global Mobility International Assignment Request on HR Desktop** – The system the business uses to initiate the international assignment and to establish the compensation and relocation package for such assignment.

**Gross-up** A mathematical calculation to determine the gross salary from the net salary (before income tax and social contributions).

**Home Location, Host Location, and Hiring Location** – The home location is the point of origin from which we hire the employee and from which the employee transfers. The host location is any location in any other country where the employee works on a temporary assignment. The hiring location is the country where the permanent transferee or a new hire is being relocated at the start of employment.







**Household goods** – Household items, including furniture and personal effects that are sent by sea, air, and/or ground to and from the host location.

**Housing benefit/allowance/differential** – Financial assistance related to the provision of accommodations in the host country for the assignee and accompanying family. This allowance may or may not be expressed as the total cost of foreign housing, or alternatively as the foreign housing cost net of a home country housing norm.

**Housing offset/norm/notional expense/contribution** – An approximation of typical home country housing costs that would normally be borne by employees of the same base salary and family size in the home location.

**Hypothetical/tax norm** – Under the process of tax equalization, the assignee's share of his or her worldwide tax burden. This is normally determined by estimating the amount of taxes that the employee would have paid had he remained in the home country.

**Immediate Family** – For purposes of emergency leave, the immediate family includes:

- parents, including step parents or an individual who stood in place of a parent to the employee when the employee was a child;
- current spouse (including a common-law spouse according to host country law) or domestic partner;
- children, step children, and their current spouses;
- siblings, step siblings, half siblings, and their current spouses;
- grandparents, step grandparents, grandchildren, and step grandchildren;
- current spouse's or domestic partner's parents (as defined above), grandparents, step grandparents, children, step children, grandchildren, and step grandchildren;
- current spouse's or domestic partner's siblings, step siblings, half siblings and their current spouses.

**Incidental Expenses** – Laundry; dry cleaning; and fees and tips given to porters, baggage carriers, bellhops, and hotel maids.

**Letter of Understanding** – An agreement letter signed by the employee acknowledging the terms and conditions of the relocation. The letter is prepared by Global Mobility and outlines the authorized benefits, allowances, and terms and conditions of the assignment.

**Localization/localizing** – The transitioning of an assignee to an employment status/ package in the host country equivalent to that of host country nationals. The length of transition may vary.

**Partner** – Meets a) the requirements of a domestic partner in the home location for purposes of establishing benefit-related entitlements under the Company's compensation and benefit guidelines, and b) the legal requirements of a domestic partner in the host location for purposes of immigration as an accompanying partner.

**Per Diem** – A cash payment to an employee to cover certain temporary living expenses, usually meals, hotel, and incidental expenses, expressed as a daily rate.







**Point of Origin** – The city and home country of primary residence in which the employee resides when selected for the assignment, or the city and country determined by the business if the employee is selected for the assignment while outside of the home country.

**Reasonable** – While a precise definition of "reasonable" is not possible, by applying sound business judgment to various indicators—such as economy, business objectives, facts and circumstances, necessity, and availability of alternatives—an opinion can be formed as to the action or cost a prudent person could have reasonably been expected to take or incur under similar circumstances.

**Relocation Repayment Agreement** – An agreement letter between Company and the employee whereby the employee acknowledges and agrees to the circumstances under which the employee is responsible for repayment of the relocation.

**Tax equalization/equalize** – A compensation methodology for calculating the assignee's share of his or her worldwide tax burden by attempting to ensure that the employee is financially "no better or worse off" than he or she would have been had the assignment not taken place.

**Unaccompanied** – The employee is unaccompanied if the employee does not have eligible dependents or if an eligible dependent authorized to travel with the employee at the Company's expense to the host location does not accompany the employee.

Questions contact [Global\\_Mobility@Discovery.com](mailto:Global_Mobility@Discovery.com)



Long-Term Assignment

---



## APPENDIX A

### Cost of Living

Depending on the home and host locations, duration of stay and tax efficiency, you may receive a **Per Diem** (a “daily” allowance) or a **Cost of Living Allowance (COLA)**. These allowances are in place of using the corporate card (for Travel and Entertainment and filing expense reports for the duration of your assignment) as you will be placed in accommodations with kitchen and laundry facilities.

In estimating the allowances, the “home” location is based on your office location before your assignment and the “host” location is based on your office location where you work during your assignment. If you are not assigned to work in an office, the location is based on the office closest to where you were working.

A **Per Diem** is based solely on the host work location and is usually the best option for short-term assignments.

A **COLA** is based on the difference between your home and your host location, your salary, and your family size. It is most often used for long-term assignments where you are in longer-term accommodations.



#### Per Diem is:

- Based on 30% of the Company’s [Travel & Entertainment Policy](#) for duration of stay and destination, based on the host work location and without reference to base salary, family size or home location
- For the everyday groceries and incidentals, to be used at your discretion, for the duration of your assignment (not a full allowance)
- Delivered for each day you are in-country (7 days per week)
- Expressed in the host currency and calculated/delivered in your home currency



#### COLA is:

- A differential based on the cost of goods and services between the home and host locations
- Based on base salary, family size (including dependents) and home and host locations
- Intended to pay for the difference in cost of clothes, food, utilities, meals out, and electrical goods and transportation



---



- Not delivered if the cost of goods and services in the host location is less than in your home location (since you will not be negatively impacted).

### **How Payments are Delivered**

Your allowance will normally be paid through home payroll unless specified otherwise. The allowance is grossed up at the time of payment, subject to tax. You receive a net spendable allowance (no tax impact to you). If you are tax equalized, the allowance is equalized. In other words, any income tax that arises on these allowances is borne by the Company.

### **Allowance Updates**

Allowances are impacted by changes in foreign exchange rates and the differential between goods and services in the home/host locations.

### **Rate of Exchange Updates**

An update to the *Rate of Exchange* (ROE) occurs quarterly, based on the Company Treasury average over the previous three months. The ROE is monitored weekly. If, in any week, the ROE fluctuates more than 10% since your last update per the Monday issue of the Wall Street Journal, and is confirmed with a third-party provider, the Company will update your allowance off-cycle to accommodate the fluctuation.

### **Goods and Services Differential Updates**

The goods and services differential is surveyed by a third-party provider and updated twice a year in May and November.

After the initial setup at the start of your assignment, the COLA is updated on a quarterly basis using the most recently available surveys and ROE average described above.

The Company updates the COLA in March following merit increases. If the allowance is delivered in a currency other than your home currency through a relocation vendor, the ROE is updated quarterly using the Company Treasury average ROE for the previous three months.

If your assignment home/host location is subject to a volatile economy, we will discuss ROE and Goods and Services update schedules prior to the start of the assignment.



---

## APPENDIX B



### Housing

The housing allowance provides allowances or reimbursements for housing costs that are in excess of what the employee would have incurred at home. The employee still contributes to their housing costs as if they stayed at home (their "norm") and the Company pays for any additional costs in the assignment location (the "differential").

- The housing norm accounts for you not having certain residential expenses in your home location while you are on assignment.
- A housing differential accounts for you having additional residential expenses in your host location while you are on assignment.

In estimating the allowances, the "home" location is based on the office location closest to where you work before your assignment. The "host" location is based on the office location closest to where you work during your assignment.

#### Housing allowances:

##### For renters in the home location:

- *If you are a renter in the home location, the housing allowance is based on the assumption that you will terminate your lease in the home location so as not to incur duplicate housing expenses while on assignment.*
- *The Company provides a housing allowance based on the difference between of the cost of housing in the home and the host location.*

##### For homeowners in the home location:

- The Company provides a housing allowance based on the difference between of the cost of housing in the home and the host location.*
- *If you are a homeowner in the home location, the housing allowance varies based on whether you choose to rent out your home during your assignment.*
  - *If you rent out your home location property, thereby not having duplicate housing obligations, the housing allowance is based on the difference between of the cost of housing in the home and the host location.*
  - *If you do not rent out your home location property, the housing allowance is based only on the cost of housing in the host location. The Company also provides a Home Utilities Offset Allowance to accommodate maintaining utilities in the vacant residence in the home location.*

---



#### **For renters and homeowners in the home location:**

- *If you terminate your lease or rent out your home location property while on assignment **and** the cost of housing is less in the host location than in your home location, it is possible that the “norm” applied will be in excess of the housing allowance. In this case, you will not receive a housing allowance.*

#### **The allowance calculation:**

- The type and amount of a host housing allowance is usually obtained from third party vendors, local market information, or from internal information.
- Allowances are based on home and host location, family size, and level (band) within the Company.
- Host housing is communicated in the host location currency as the rent is typically fixed in the host location currency.
- Home housing is communicated in the home location currency as determined by analyzing the *average* costs of rent or mortgage, utilities, insurance, and property taxes in your home location; it is *not* based on actual home rental fees or on home mortgage costs, or estimated market value for your home.

#### **Employee Options**

We will notify you and your relocation counselor of your differential or housing allowance prior to home finding in the host location. In this way, you can manage your housing budget, and the relocation counselor can arrange for you to see properties within your budget.

- Please let your relocation counselor know if you are interested in properties that exceed your allowance. The counselor will work with you to find housing and arrange for you to make the payments for the excess housing cost.
- If your allowance exceeds your rent, you may submit utilities charges to your relocation counselor for reimbursement, up to the total allowance amount
  - The total for the rent and the utilities may not exceed your allowance.
  - Although utilities are included in the underlying calculation of the COLA, your COLA will not be affected if you choose this option.

#### **How Payments are Delivered and Updates**

Your assignment-related allowances will normally be paid through home payroll, or paid on your behalf directly to your landlord, unless specified otherwise. Your contribution or “norm” is deducted from your wages via home payroll.



---



Any allowance paid to you is grossed up at the time of payment, if necessary. You receive a net spendable allowance (no tax impact to you). If you are tax equalized, the allowance is equalized. In other words, any income taxes that arise on these allowances are borne by the Company.

If housing is paid on your behalf and the differential allowance does not cover the full cost of your rent payment, the balance will be deducted from your other compensation.

Your housing allowance is reviewed annually to account for inflation and cost of living update.

### **Types of housing**

Depending on the host location and the duration of your assignment, you may be in **Corporate Housing** (a serviced apartment in markets in which the private rental market is limited) or a longer term **Leased Accommodations**.

**Corporate Housing** is generally a furnished, serviced apartment that allows you to live without the burdens of paying utilities, arranging for cleaning, or having maintenance responsibilities. It is usually arranged by your counselor (with your input as to location and other amenities) and the cost is usually paid for directly by the Company. Corporate housing is most commonly used for assignments less than one year. Corporate housing offers fully-furnished apartments including linens, utilities, internet access, television, one parking space in some locations, and telephone service with the exception of long-distance personal phone calls. Personal long-distance telephone charges, meals, and other incidentals are at your expense. These costs are calculated in your *Per Diem* or COLA. If you are in **Corporate Housing** for any portion of your stay, *such as upon arrival or departure, please refer to the section on [Temporary Living for an explanation of this temporary benefit](#).*

### **Leased Accommodations**

For many assignments longer than one year, you will be placed in an independent furnished or unfurnished apartment or house. This is referred to as a “leased” or “long-term let” apartment or house. Depending on the duration of your lease and home and host factors, the lease may be in your name, or may be entered into by the Company.

Your allowance will start when you move into your long-term leased accommodations.

For leased accommodations, you may be responsible for furnishing the house or apartment, arranging and paying for utilities, and keeping the residence cleaned and maintained. The Company will assist with shipping household goods. The Company includes estimated utility expenses in the COLA.



---



If you incur host taxes on the leased accommodation, your counselor can arrange reimbursement to you upon receipt of proof of payment.

**Information for Home Owners**

If you are a homeowner, please contact your international relocation counselor. The Company strongly discourages and does not support the purchase of housing at the host location during an international assignment. Purchasing housing in the host country generally restricts mobility and could result in substantial financial loss should you be unable to dispose of the property at a realistic sales price upon repatriation. Additionally, there may be a significant tax consequence associated with host country home ownership in many locations.

All home ownership costs related to such purchase, sale, or operation of an owned residence in the host or hiring country will be your responsibility. If you decide to purchase a home, the Company will not recognize any responsibility for losses on housing purchased at the host/hiring location, whether those losses are a result of market conditions, exchange rate fluctuations, or any other causes. The Company will not reimburse closing costs of either purchase or sale. In addition, should the purchase of housing increase your tax liability in the assignment location, you will be responsible for the increased cost.

If you purchase a home in the host/hiring location, all housing and utilities support provided by the Company will cease.



---



## Executive Benefits Summary

**Executive Long-Term Care Insurance** – The Discovery Communications, LLC., Group Long-Term Care Insurance is insured by The Prudential Insurance Company of America. Discovery pays the policy premiums for certain eligible executives. The employer-paid executive long-term care plan includes coverage features such as an Institutional Daily Benefit of up to \$150.

**Executive Long-Term Disability Insurance** – As a supplement to group long-term disability coverage, The Discovery Communications Executive Long-Term Disability offering provides eligible employees the opportunity to obtain coverage under a supplemental individual disability income insurance policy, insured by MassMutual Life Insurance Company. Discovery pays the policy premiums for certain eligible U.S. executives. Coverage features include up to a \$10,000 monthly benefit on a guaranteed standard issue basis with no medical underwriting.

**Group Variable Universal Life (GVUL) Insurance** – The GVUL is a supplemental life insurance offering insured by Metropolitan Life Insurance Company. Eligible U.S. participants have the option to elect supplemental life insurance coverage in multiples of up to 5 times eligible annual earnings.

# 2020 Incentive Compensation Plan

DISCOVERY INC







Discovery's success depends on each employee working together to reach our strategic goals. The Incentive Compensation Plan (ICP) is the variable component in your overall pay package, providing you with an opportunity to receive an award that is tied to business success and your contributions to those results. When Discovery succeeds, we all succeed.

This is a core tenet of our pay for performance philosophy. Discovery is committed to providing employees with competitive, performance-based compensation and the opportunity to share in the company's success. The ICP is closely aligned with Discovery's business strategy, strengthening the link between our strategic goals and your compensation. An award under the ICP is not guaranteed; awards will vary and may exceed or fall below individual incentive targets depending upon business and individual performance for a given plan year.



## Table of Contents

Page	Section
3	The ICP at a Glance
3	Performance & Award
4	Financial Measures
5	Individual Performance
6	Performance Pool
6	Additional ICP Information

---

# The ICP At a Glance

We recognize that the company's success depends on each employee working together to reach our strategic goals. The ICP is designed to strengthen the direct link between your incentive payments and the results of the business units or functions with which you are aligned.

## Performance & Award

### Defining ICP Elements

The key elements of the ICP closely align performance and reward by creating a link between your influence, your results and your incentive award.

#### Discovery Performance

This performance element applies to all eligible employees. Employees who are not aligned to a specific Line of Business (LOB) have 100% of their ICP aligned to the overall Discovery performance element.

#### Next Generation Digital Revenue

This performance element applies to all eligible employees. This is revenue (advertising, distribution and other) recorded and generated on Discovery's global digital distribution platforms.

#### Line of Business (LOB) Performance

This performance element applies to employees who work for a LOB within Discovery (for example, a region within Discovery Networks International, or a network or group of networks). These employees will have a portion of their overall incentive pay tied to the performance of the LOB.

#### Individual Performance

Your individual performance is factored into the determination of your incentive pay in one of two ways – reduction of the payout amount for employees who had significant gaps in performance during the year, or the award of additional incentive pay from any available "performance pool" for individuals who delivered exceptional performance during the year. Individual performance is assessed by management.

The following illustration shows how each of the ICP Performance Elements work together to create your total reward: To see the make-up of your individual ICP target award, please see your Target Compensation Statement. More information on access your statement can be found on the People and Culture Portal.



\*Awards under the ICP are not guaranteed and may exceed or fall below individual targets depending on business and individual performance for a given plan year.

---

# Financial Measures

You bring new ideas and fresh approaches that can ultimately affect the bottom line, whether you work in one of Discovery's dynamic networks or in a corporate function.

For this reason, the ICP rewards you not only for your own individual performance, but also for your impact on the financial performance of the company and, if applicable, a LOB to which you are assigned.

There are two overall factors used when measuring financial performance: revenue and profitability. Discovery measures financial performance by comparing the actual revenue and profitability results against what was planned for the plan year.

## Defining Revenue and Profitability

### Revenue

The total amount of money received by the company for goods sold or services provided during the plan year.

### Profitability

Within the profit-sharing portion of the plan, there are two measures, which are identified below:

#### Adjusted Free Cash Flow (AFCF)

Discovery defines FCF as cash from operations less capital expenditures. FCF may be adjusted (AFCF) to eliminate the impact on FCF of various one-off items such as long-term incentive expenses arising from unbudgeted movements in stock price, or unbudgeted M&A activity.

#### Adjusted Operating Income Before Depreciation and Amortization (AOIBDA)

AOIBDA is measured by revenue less cost of sales, operating expenses and selling, general and administrative expenses (excluding long-term incentive compensation). This measure of profitability is used for all US and International LOBs.



---

# Individual Performance

Your individual performance is an important part of the ICP. Each year, Discovery sets its corporate goals, identifying the priorities for the year that will help our company grow and achieve. The goals you set with your managers and teams should support the company's overall goals, and when you perform well against those goals, Discovery performs well, too. So, whether you are assisting with international growth or focusing on quality content, your individual performance ties directly to Discovery's overall performance.

Your ICP award can be reduced if you are on a performance plan during the year or do not fully contribute to the success of your LOB (if applicable) or the company overall as assessed by management. Extraordinary performance can result in a higher ICP award through the performance pool as outlined below.



## Performance Pool

The performance pool is a discretionary component of the ICP that may create an additional amount of funding based on financial performance. If you performed particularly well as an individual for the year, and the financial performance of Discovery and/or your LOB (if applicable) exceeds planned performance for the year, then, you may be eligible to receive a performance pool payout. If a pool is available, a limited number of individual awards will be at the discretion of senior management.

## Additional ICP Information

### Employment Changes During the Year

Any employment changes throughout the year may result in a blending of the salary used to calculate your ICP award and/or the incentive target percentage.

---

Example: Blended Salary

The following sample calculation shows how the blended base salary is derived:

Assume the salary on January 1 is \$50,000, and on September 1, the employee is promoted and receives a salary increase to \$60,000.

$$\begin{array}{l} (50,000 \times \\ (243 \text{ days}/365 \text{ days})) \\ = \$33,288 \end{array} + \begin{array}{l} (60,000 \times \\ (122 \text{ days}/365 \text{ days})) \\ = \$20,055 \end{array} = \begin{array}{l} \text{Total Blended Salary} \\ = \$53,343 \end{array}$$

The blended incentive opportunity is the amount used for incentive purposes as a blend of an employee's incentive opportunity throughout the year weighted by time.

Example: Blended Incentive Opportunity

Here is an example of how the blended incentive opportunity percentage is derived:

Assume the incentive opportunity on January 1 is 10% and the employee is promoted on September 2 and is now entitled to receive a 15% incentive opportunity. In this example, the employee was in a role with a 10% target for 244 days of the year and a 15% target for 121 days.

$$\begin{array}{l} (10\% \times \\ (244 \text{ days}/365 \text{ days})) \\ = 6.68\% \end{array} + \begin{array}{l} (15\% \times \\ (121 \text{ days}/365 \text{ days})) \\ = 4.97\% \end{array} = \begin{array}{l} \text{Total Blended Incentive} \\ = 11.65\% \end{array}$$

---

## Discovery, Inc.

### INCENTIVE COMPENSATION PROGRAM

Adopted effective January 1, 2009,  
as amended in 2010, 2011, 2012, 2013, 2015, 2016, 2018, 2019, and 2020

#### ELIGIBILITY AND TERMS

---

Employees of Discovery, Inc. or a Participating Subsidiary (“the Company”) who are classified as regular full-time employees of the Company are eligible to participate in the annual Incentive Compensation Program (the “ICP”), subject to the discretion of management. Eligibility for part-time, less-than-full time and temporary employees of the Company will be subject to the discretion of management and/or determined by local legislation, country by country, as appropriate. The determination of participation by any particular employee or subsidiary is made by the Company in its discretion. An employee who is eligible for another Company sales or annual incentive award program generally is not eligible to participate in the ICP, nor is an employee who begins employment in an ICP-eligible position on or after October 1 of the Program Year. In this document, an employee who meets these eligibility requirements is referred to as an “Eligible Employee.” “Participating Subsidiary” includes entities at least 80% of the voting equity is owned by Discovery, Inc. or one or more of its 100% owned direct or indirect subsidiaries.

The ICP is an annual cash bonus program that rewards Eligible Employees for their individual performance contribution and Company performance (measured and treated separately in relation to revenue and profitability) for the entire Program Year, subject to the proration provisions set forth below. The target award opportunity is expressed as a percentage of base salary. The Company performance metrics may reflect Company-wide performance or a combination of overall Company performance and performance of a specific Company division or business unit. An Eligible Employee’s payout, if any, is based on the applicable Company performance measures (both revenue and profitability, measured separately) and any other measures that may be applicable to an employee’s job level or role. The calculated payout may be reduced if warranted by the employee’s individual performance or other individual factors.

The ICP begins on January 1 and ends on December 31 each year (the “Program Year”). The Company will comply with local legal requirements and any applicable contractual provisions in implementing these Terms and Conditions; if a legal or contractual provision conflicts with this document, the legal or contractual requirement will govern. The payout, if any, under the ICP will occur in the first quarter of the calendar year following the Program Year and, in the United States, on or before March 15.



## TERMS AND CONDITIONS

---

1. Proration of Target or Payout: An Eligible Employee must be employed for the entire Program Year (i.e. from January 1 up to and including to December 31) to be eligible for a payout, unless one of the following exceptions applies to permit a prorated payout. The eligibility for and amount of any payout will continue to be subject to the other terms and conditions of the ICP and the applicable Company performance measures.
  - a. New Hires: An employee who is hired into a role that is ICP-eligible before October 1 of the Program Year, will be eligible for a prorated payout under the ICP based on the date of hire, subject to the terms and conditions of the ICP. An employee hired on or after October 1 of the Program Year, will not be eligible to participate in that Program Year's ICP.
  - b. Part-Time Employees: An Eligible Employee who works part-time or less-than- full time or who is hired during the Program Year and who otherwise meets the eligibility requirements of the Program will be eligible for an ICP target that is based on the percentage of applicable salary, at the part-time level, during the Program Year.
  - c. Leave of Absence: An Eligible Employee who is in leave status for more than 90 consecutive days during the Program Year will be eligible for a prorated ICP payout, subject to the terms and conditions of the ICP. The proration calculation will be based on the number of days that the Eligible Employee was actively working (including leave for 90 days or less). An Eligible Employee who is in leave status for 90 consecutive days or less will not be subject to proration under this subsection.
  - d. Termination for Cause: If an Eligible Employee's employment with the Company terminates prior to the date the ICP for the Program Year is actually paid out, for "Cause," the Eligible Employee will not be eligible for any payout, prorated or otherwise. "Cause" shall mean under this paragraph: (i) the conviction of, or nolo contendere or guilty plea, to a felony (whether any right to appeal has been or may be exercised); (ii) conduct constituting embezzlement, material misappropriation or fraud, whether or not related to the Eligible Employee's employment with the Company; (iii) conduct constituting a financial crime, material act of dishonesty or conduct in violation of Company's Code of Business Conduct and Ethics; (iv) improper conduct substantially prejudicial to the Company's business; (v) willful unauthorized disclosure or use of Company confidential information; (vi) material improper destruction of Company property; (vii) willful misconduct in connection with the performance of Executive's duties; and (viii) any other conduct that constitutes Cause under the Company's policies and procedures.
  - e. Resignation: If an Eligible Employee resigns from their employment (and their employment ends) at any time in the Program Year, no payout prorated or otherwise shall be paid. For these purposes, unless an Eligible Employee who is working under a fixed term employment contract otherwise falls within one of the above exceptions set forth in these terms and conditions (as applied to a resignation), a separation at the end of a fixed-term assignment because of the natural expiration of the assignment shall be considered a resignation.
  - f. Death, Disability, Retirement or Termination without Cause: If an Eligible Employee separates before December 31 due to death, disability, retirement, or to accept immediate employment with



an “Affiliate,” the employee will be eligible for a prorated payout if the employee was an Eligible Employee for 180 days or more during the Program Year. For these purposes, “retirement” means separation from the Company for any reason other than Cause at a point at which an Eligible Employee is at least age 60 and has been employed by the Company, or any of its subsidiaries for at least ten years, where the Eligible Employee’s period of service is determined using the Company’s Prior Employment Service Policy or a successor policy chosen by the Administrator. Special treatment upon retirement shall be subject to local laws in those countries subject to any EU Directive on Discrimination. If an Eligible Employee’s employment is terminated by the Company without Cause, the employee will be eligible for a prorated payout if the employee (a) was an Eligible Employee for 270 days or more during the Program Year, and (b) if applicable, meets any requirement to sign a release of claims under a Company-sponsored severance benefit plan or other applicable employment agreement or arrangement, provided that the arrangement does not exclude the payout of the ICP. For purposes of this Section, an “Affiliate” is an entity in which the Company has an ownership interest of 50% or more but which is not considered a Participating Subsidiary under the ICP (e.g., OWN LLC).

- g. Termination and Rehire During a Single Program Year: If an Eligible Employee’s employment is terminated by the Company without Cause and the Eligible Employee is rehired within the same Program Year, the employee will be eligible for a prorated payout for that Program Year provided that (i) the Eligible Employee has met any requirement to sign a release of claims associated with the termination, and (ii) the Eligible Employee was actively employed for 180 days or more during the Program Year, including service prior to the termination and after the rehire date. The Company will determine the applicable Company performance metrics based on the facts and circumstances of the Eligible Employee’s role(s) and duties during the Program Year.
- h. Transfer into Role under Separate Bonus Plan: If an Eligible Employee moves into a role that is not ICP-eligible because the role is covered by another bonus plan (e.g., an advertising sales role), the employee will be eligible for a prorated payout for that Program Year based on the length of time that the Eligible Employee was in the ICP-eligible role.

- 2. No Additional Rights: The ICP shall not confer or be deemed to confer any right with respect to continuance of employment by the Company, nor interfere in any way with the right of the Company to separate an employee from employment.
- 3. Discretionary Program: Unless contrary to the express and unequivocal terms of applicable law, regulations, or codetermination rights, any ICP payout is a strictly discretionary and conditional payout, is made subject to the terms and conditions of these guidelines and the applicable ICP Company performance measures (based on revenue and profitability) for each Eligible Employee, and does not form a part of an employee’s regular base salary compensation. The operation or continuance of the ICP through a Program Year gives no right or expectation to any ICP payout, whether in same or similar form or at all, in any future Program Year. Company management also reserves the sole discretion to determine the design, applicable criteria and the actual payout percentages for each component of each target grid as it deems appropriate.



4. Profit Sharing: For those countries that legally require participation in profitsharing programs, an addendum to these guidelines will be published. It is acknowledged that, for all countries, any ICP payout is funded by two separate elements a) corporate revenue and b) a share of profits.
5. Timing of Payout: If an Eligible Employee terminates employment with the Company before the scheduled payout date of the ICP and is eligible for a prorated payout, the timing of any payout, if legally allowable, will be determined under the normal course of the ICP and delivered on the scheduled payment date for other Eligible Employees who remain employed by the Company. If local laws do not permit a delay of the payment until the scheduled payment date under the ICP, the Company at its sole discretion will determine the payment under the Program to be included in the pay for the last month of employment.
6. Administration: The Senior Vice President for Total Rewards (“Administrator”) has the full power and authority to construe, interpret and administer the ICP and the determinations of the Administrator are final, conclusive and binding on all persons unless any such determination is otherwise expressly and unequivocally prohibited by local laws and regulations or codetermination rights. For participants employed in the United States, the ICP shall be construed, administered and governed under the laws of the State of Maryland, without regard to its conflict of law rules.
7. Amendment, Modification, and Termination: The Company reserves the right to amend, modify or terminate the ICP at any time in its sole discretion and will implement those changes respecting the terms and conditions of local laws, works agreements or codetermination rights that expressly and unequivocally conflict, in whole or in part, with any such action or decision. The ICP will be implemented subject to and in accordance with local laws and regulations, which may require certain actions in particular circumstances.
8. Clawback Policy: In addition to any other remedies available to the Company (but subject to applicable law), if the Board, or the Compensation Committee, determines that an employee has engaged in fraud or misconduct that resulted in a financial restatement, the Company may recover, in whole or in part, any incentive compensation, equity award, and/or profit realized from the sale of Company securities, including any payment under the ICP, made or received in the 12 months after the filing of the financial statement that was found to be inaccurate.

---



DISCOVERY COMMUNICATIONS, LLC  
SUPPLEMENTAL DEFERRED COMPENSATION PLAN  
(Amended and Restated Effective as of January 1, 2021)

ARTICLE I  
ESTABLISHMENT AND PURPOSE

Discovery Communications, LLC (the “Company”) hereby amends and restates the Discovery Communications, LLC Supplemental Deferred Compensation Plan (the “Plan”) in its entirety as set forth herein, effective as of the Effective Date (as defined below). Except as otherwise provided herein, this amendment and restatement applies to all amounts previously or hereafter deferred under the Plan, including amounts deferred under the Plan prior to January 1, 2005.

The purpose of the Plan is to attract and retain key employees by providing Participants with an opportunity to defer receipt of a portion of their salary, bonus, and other specified compensation. The Plan is not intended to meet the qualification requirements of Section 401(a) of the Code, but is intended to meet the requirements of Section 409A of the Code, and shall be operated and interpreted consistent with that intent.

The Plan constitutes an unsecured promise by a Participating Employer to pay benefits in the future. Participants in the Plan shall have the status of general unsecured creditors of the Company or the Adopting Employer, as applicable. Each Participating Employer shall be solely responsible for payment of the benefits of its employees and their beneficiaries. The Plan is unfunded for federal tax purposes and is intended to be an unfunded arrangement for eligible employees who are part of a select group of management or highly compensated employees of the Employer within the meaning of Sections 201(2), 301(a)(3), and 401(a)(1) of ERISA. Any amounts set aside to defray the liabilities assumed by the Company or an Adopting Employer will remain the general assets of the Company or the Adopting Employer and shall remain subject to the claims of the Company’s or the Adopting Employer’s creditors until such amounts are distributed to the Participants.

ARTICLE II  
DEFINITIONS

For purposes of the Plan, the following words and phrases shall have the meanings set forth below, unless their context clearly requires a different meaning:

2.1 “Account” means the bookkeeping account maintained by the Committee on behalf of each Participant pursuant to this Plan. The Account shall be a bookkeeping entry only and shall be used solely as a device to measure and determine the amounts, if any, to be paid to a Participant or the Participant’s Beneficiary under the Plan. A Participant’s account may include one or more sub-accounts, including, but not limited to, one or more sub-accounts attributable to deferrals for Plan Years before 2021. Accounts are intended to constitute unfunded obligations within the meaning of Sections 201(2), 301(a)(3) and 401(a)(1) of ERISA.



2.2 “Adopting Employer” means a member of the Affiliate Group that, with the consent of the Company, has adopted the Plan (or has been deemed to adopt this Plan) pursuant to Section 10.3 hereof for the benefit of its Eligible Employees.

2.3 “Affiliated Group” means (a) the Company, and (b) all entities with whom the Company would be considered a single employer under Sections 414(b) and 414(c) of the Code, such that in applying Section 1563(a)(1), (2), and (3) of the Code for purposes of determining a controlled group of corporations under Section 414(b) of the Code, the language “at least 80 percent” shall be used each place it appears in Section 1563(a)(1), (2), and (3), and in applying Treasury Regulation Section 1.414(c)-2 for purposes of determining trades or businesses (whether or not incorporated) that are under common control for purposes of Section 414(c), the language “at least 80 percent” shall be used each place it appears in that regulation.

2.4 “Base Salary” means the base “compensation” as defined in the Qualified Plan payable by the Employer to an Eligible Employee in cash during a Plan Year, determined without regard to the limitation of the amount of compensation that may be recognized under the Qualified Plan due to the application of Section 401(a)(17) of the Code.

2.5 “Beneficiary” or “Beneficiaries” means the person or persons, including one or more trusts, designated by a Participant in accordance with the Plan to receive payment of the remaining balance of the Participant's Account in the event of the death of the Participant prior to the Participant's receipt of the entire amount credited to the Participant's Account.

2.6 “Beneficiary Designation” means a Participant's written designation of one or more Beneficiaries, made in such manner (which may include an electronic format or a paper form) as designated by Committee.

2.7 “Business Day” means each day on which the United States securities markets are open for business.

2.8 “Change in Control” means a “change in control event” within the meaning Treasury Regulation 1.409A-3(i)(5).

2.9 “Claimant” Claimant means a Participant or Beneficiary filing a claim under Section 8.2 of this Plan.

2.10 “Code” means the Internal Revenue Code of 1986, as amended.

2.11 “Committee” means the Retirement Plan Committee or such other committee appointed by the Board of Directors of Discovery Communications, Inc. (or the appropriate committee of such board) to administer the Plan. If no designation is in effect, the Senior Executive Vice President of Human Resources of the Company or his or her delegate shall have and exercise the powers of the Committee.

2.12 “Compensation” means the total of Base Compensation and Incentive Compensation, to the extent such amounts constitute U.S.-source income. Compensation shall not include any compensation that has been previously deferred under this Plan or any other arrangement subject to Code Section 409A.



2.13 “Company” means Discovery Communications, LLC.

2.14 “Deferral Election” means a Participant's written election, made in such manner as designated by the Committee (which may include an electronic format or a paper form), to defer a portion of the Participant’s Base Salary and/or Incentive Compensation in accordance with the provisions of Article IV, which deferral election, once it has become effective, shall be irrevocable with respect to the Plan Year to which it applies.

2.15 “Discretionary Company Credit” means a credit by the Employer to a Participant’s Account in accordance with the provisions of Article V of the Plan, whether as a match of Participant deferrals or otherwise. Discretionary Company Credits, if any, shall be credited at the sole discretion of the Employer, and the fact that a Discretionary Company Credit may be credited to a Participant’s Account in one year shall not obligate the Employer to continue to make any such Discretionary Company Credit in any subsequent year.

2.16 “Effective Date” means January 1, 2021.

2.17 “Employer” means, with respect to Employees it employs, the Company and each Affiliate.

2.18 “Eligible Employee” has the meaning given to such term in Section 3.1 hereof.

2.19 “**Employee**” means an active employee of a Participating Employer who is classified as a regular full-time or regular part-time employee of a Participating Employer and is paid by the Participating Employer and issued a W-2 by the Participating Employer with respect to those wages. For this purpose, a regular part-time employee is an employee who is classified as benefits eligible and is regularly scheduled to work at least 30 hours per week.

2.20 “ERISA” means the Employee Retirement Income Security Act of 1974, as amended.

2.21 “Incentive Compensation” means any incentive compensation, including commissions under sales incentive plans, payable in cash to an Eligible Employee pursuant to any incentive compensation plan or program in which Eligible Employees of an Employer are participants and that is designated by the Committee as an eligible source of compensation for deferral under this Plan.

2.22 “Participant” means any Eligible Employee who (a) at any time has elected to defer the receipt of Base Salary and/or Incentive Compensation in accordance with the Plan or (b) whose Account has been credited with a Discretionary Company Credit, and who, in any case, has not received complete payment of the amount credited to the Participant’s Account.

2.23 “Participating Employer” means the Company and each Adopting Employer.

2.24 “Performance-Based Compensation” means Incentive Compensation that is based on services performed over a period of at least 12 months and that constitutes “performance-based compensation” within the meaning of Section 409A of the Code. In general, for purposes of Section 409A of the Code, “performance-based compensation” means compensation the amount



of which, or the entitlement to which, is contingent on the satisfaction of pre-established organizational or individual performance criteria relating to a performance period of at least 12 consecutive months. For such purposes, organizational or individual performance criteria are considered pre-established if established in writing by not later than 90 days after the commencement of the period of service to which the criteria relate, provided that the outcome is substantially uncertain at the time the criteria are established. Performance-Based Compensation does not include any amount or portion of any amount that will be paid either regardless of performance or based upon a level of performance that is substantially certain to be met at the time the criteria are established.

2.25 “Plan” means this Discovery Communications, LLC Supplemental Deferred Compensation Plan, as it may be amended from time to time.

2.26 “Plan Year” means the calendar year.

2.27 “Qualified Plan” means the Discovery Communications, LLC Retirement Savings Plan, as amended from time to time.

2.28 “Separation from Service” means a Participant’s termination of employment or service with the Affiliated Group, other than as a result of the Participant’s death, in such a manner as to constitute a “separation from service” as defined under Section 409A of the Code.

2.29 “Specified Employee” means a “specified employee” as determined by the Company in accordance with Section 409A of the Code.

2.30 “Unforeseeable Emergency” means an “unforeseeable emergency” as defined under Section 409A of the Code. In general, for purposes of Section 409A of the Code, an “unforeseeable emergency” means a severe financial hardship to a Participant resulting from an illness or accident of the Participant, the Participant’s spouse, the Participant’s Beneficiary, or the Participant’s dependent (as defined in Section 152 of the Code, without regard to Sections 152(b)(1), (b)(2), and (d)(1)(B)); loss of the Participant’s property due to casualty (including the need to rebuild a home following damage to a home not otherwise covered by insurance, for example, not as a result of a natural disaster); or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant.

### ARTICLE III ELIGIBILITY AND PARTICIPATION

3.1 Eligibility and Participation. Participation in the Plan is limited to any employee of an Employer who (i) is selected by the Committee, in its sole discretion, as eligible to participate in the Plan, and (ii) is a member of a “select group of management or highly compensated employees,” within the meaning of Sections 201, 301 and 401 of ERISA (each an “Eligible Employee”). In lieu of designating individual Eligible Employees for Plan participation, the Committee may establish eligibility criteria (consistent with the requirements of this Section 3.1) providing for participation of all Eligible Employees who satisfy such criteria. The Committee may at any time, in its sole discretion, change the eligibility criteria for Eligible Employees, or determine that one or more Participants will cease to be an Eligible Employee. An Employee so



selected shall become an Eligible Employee effective on the first day of the month immediately following the month in which the Employee is designated by the Committee or satisfies the eligibility criteria established by the Committee. An Eligible Employee becomes a Participant upon the earlier to occur of: (i) a credit of a Discretionary Company Credit under Article V, or (ii) the date that the Eligible Employee's initial election to defer Base Salary and/or Incentive Compensation to the Plan becomes irrevocable. An Eligible Employee who receives a credit of a Discretionary Company Credit shall not be eligible to defer Compensation to the Plan unless the Participant receives notice that he or she is eligible to defer.

3.2 Enrollment Requirements. Except as otherwise determined by the Committee, as a condition to participation, each Eligible Employee shall make a Deferral Election no later than the date or dates specified by the Committee in accordance with the Plan. In addition, the Committee may establish from time to time such other enrollment requirements as it determines in its sole discretion are necessary.

3.3 Commencement Date. Except as otherwise may be provided by the Committee pursuant to Section 4.1, each Eligible Employee first shall be eligible to commence participation in accordance with the terms and conditions of this Plan effective as of January 1 of the Plan Year next following the Plan Year in which he or she becomes an Eligible Employee pursuant to Section 3.1. Notwithstanding the foregoing, the Committee, in its sole discretion, may permit an Eligible Employee to commence participation in the Plan upon such earlier date as may be specified by the Committee, consistent with the Plan and Section 409A of the Code.

3.4 Duration of Participation. A Participant shall be eligible to defer Base Salary and Incentive Compensation and, to the extent determined by the Employer, in its discretion, receive allocations of Discretionary Company Credits, subject to the terms of the Plan, for as long as such Participant remains an Eligible Employee. A Participant who is no longer an Eligible Employee but has not incurred a Separation from Service may not defer Base Salary or Incentive Compensation under the Plan beyond the Plan Year in which he or she became ineligible but may otherwise exercise all of the rights of a Participant under the Plan with respect to his or her Account(s). On and after a Separation from Service, a Participant shall remain a Participant as long as the balance of his or her Account is greater than zero (0), and during such time may continue to make allocation elections as provided in Article VI. An individual shall cease being a Participant in the Plan when all benefits under the Plan to which he or she is entitled have been paid.

3.5 Delay in or Suspension of Status as Eligible Employee. An individual who would otherwise be in a category of Eligible Employees selected for participation by the Committee shall not be treated as an Eligible Employee for purposes of a Deferral Election under Section 4.1 or Section 4.2 if initially eligible in connection with a promotion that is coupled with a work assignment outside of the United States that is designated as "long-term" (under the Company's normal procedures with respect to non-U.S. employment) but will be treated as eligible for election under Section 4.1 when repatriated to the United States (if otherwise eligible for such status pursuant to Treas. Reg. § 1.409A-2(a)(7) as someone not previously or recently eligible to defer). An individual who is otherwise an Eligible Employee may not make an election under of



Section 4.2 with respect to the following calendar year if he or she is expected to be on a “long-term” work assignment outside of the United States during that year.

#### ARTICLE IV DEFERRAL ELECTIONS

4.1 **Certain Newly Eligible Participants.** Except as otherwise determined by the Committee, in its sole discretion, newly Eligible Employees shall not be permitted to make a Deferral Election with respect to Base Salary and/or Incentive Compensation earned during the Plan Year in which the Eligible Employee is first eligible to participate in the Plan. However, notwithstanding the foregoing, the Committee, in its sole discretion, may permit any Eligible Employee to make a Deferral Election with respect to Base Salary earned for services performed during the Plan Year in which the Eligible Employee is first eligible to participate in the Plan (and in any other plan that would be aggregated with the Plan under Section 409A of the Code), as determined in accordance with Treasury Regulation Section 1.409A-2(a)(7); provided, however, that such Deferral Election (a) is made and becomes irrevocable no later than the 30th day (or such earlier date as specified by the Committee) after the effective date that the Employee first becomes an Eligible Employee pursuant to Section 3.1 of the Plan, and (b) shall apply only to Base Salary earned for services performed after the date that the Deferral Election becomes irrevocable, as determined by the Committee in accordance with Section 409A.

4.2 **Annual Deferral Elections.** Unless the Committee determines to permit an election pursuant to Section 4.1, and except as otherwise determined by the Committee, each Eligible Employee may elect to defer Base Salary and/or Incentive Compensation for a Plan Year by filing a Deferral Election with the Committee only in accordance with the following rules:

(a) **Base Salary.** The Deferral Election with respect to Base Salary must be made by such date as specified by the Committee that is not later than December 31 of the Plan Year immediately preceding the Plan Year for which such Base Salary is earned.

(b) **Incentive Compensation.**

(i) **In General.** With respect to any Incentive Compensation to which neither Section 4.1 nor Section 4.2(b)(ii) applies, a Participant’s Deferral Election must be made by such date as specified by the Committee that is not later than December 31 of the Plan Year immediately preceding the Plan Year for which such Incentive Compensation is earned (meaning the Plan Year in which or with which the applicable performance period begins, or, in the case of Incentive Compensation consisting of sales commissions within the meaning of Treasury Regulation 1.409A-2(a)(12)(i), the Plan Year in which the applicable sale occurs).

(ii) **Certain Elections with Respect to Performance-Based Compensation.** To the extent permitted by the Committee in its sole discretion, a Deferral Election with respect to Incentive Compensation that constitutes Performance-Based Compensation may be made by such date as specified by the Committee that is not later than the date that is six (6) months before the end of the applicable performance period, provided that in no event may such



Deferral Election be made after such Incentive Compensation has become "readily ascertainable" within the meaning of Section 409A of the Code. In order to make a Deferral Election under this Section 4.2(b)(ii), the Participant must perform services continuously from the later of the beginning of the performance period or the date the performance criteria are established through the date the Deferral Election is made under this Section 4.2(b)(ii). A Deferral Election made under this Section 4.2(b)(ii) shall not apply to any Incentive Compensation that becomes payable to a Participant without regard to the satisfaction of the applicable performance criteria.

4.3 Amount Deferred. A Participant shall designate on a Deferral Election, as applicable, the portion of his or her Base Salary and/or the portion of his or her Incentive Compensation that is to be deferred with respect to the applicable Plan Year (or other applicable performance period) in accordance with this Article IV. The Participant may specify a different portion to be deferred for each element of his or her deferrable Compensation (Base Salary and Incentive Compensation). For each Plan Year, an Eligible Employee may defer (in 1% increments) up to 50% of his or her Base Salary, and for each Plan Year (or other applicable performance period), an Eligible Employee may defer (in 1% increments) up to 50% of his or her Incentive Compensation. Deferrals of Compensation shall be calculated with respect to the gross cash Compensation payable to the Participant prior to any deductions or withholdings, but shall be reduced by the Committee as necessary so as not to exceed 100% of the cash Compensation of the Participant remaining after deduction of all required income and employment taxes, 401(k) and other employee benefit deductions, and other deductions required by law. Changes to payroll withholdings that affect the amount of Compensation being deferred to the Plan shall be allowed only to the extent permissible under Section 409A of the Code.

4.4 Elections as to Time and Form of Payment. Each Deferral Election will specify the time and form of payment for each element of Compensation (Base Salary and Incentive Compensation) deferred by the Participant for the applicable Plan Year, subject to the provisions of Article VII, as elected by the Participant from the following alternatives:

(a) Payment Following Separation from Service. A Participant may elect to receive payment of the amount deferred pursuant to the Deferral Election for a Plan Year in a single lump sum payment, in sixty (60) substantially equal monthly installments, or in one hundred twenty (120) substantially equal monthly installments, paid or commencing within ninety (90) days after:

- (i) the Participant's Separation from Service,
- (ii) the first (1<sup>st</sup>) anniversary of the Participant's Separation from Service, or
- (ii) the fifth (5<sup>th</sup>) anniversary of the Participant's Separation from Service.

(b) In-Service Payments. A Participant may elect to receive payment of the amount deferred pursuant to the Deferral Election for a Plan Year following the earlier of:



(i) the first day of a specified month of a calendar year that is at least two (2) calendar years after the Plan Year for which such Deferral Election is made, in which case payment will be made or commence within ninety (90) days thereafter in a single lump sum payment or in substantially equal annual installments over a period of from two (2) to five (5) years, as elected by the Participant in the applicable Deferral Election; or

(ii) the Participant's Separation from Service, in which case payment will be made in a single lump sum payment, in sixty (60) substantially equal monthly installments, or in one hundred twenty (120) substantially equal monthly installments, paid or commencing within ninety (90) days after the Participant's Separation from Service, the first (1<sup>st</sup>) anniversary of the Participant's Separation from Service, or the fifth (5<sup>th</sup>) anniversary of the Participant's Separation from Service, as elected by the Participant in the applicable Deferral Election.

(c) Default Time and Form of Payment. To the extent that a Participant does not designate the time and form of payment on a Deferral Election as provided in Section 4.4 (or such designation does not comply with the terms of the Plan), the Participant's deferrals pursuant to the applicable Deferral Election shall be paid, subject to the provisions of Article VII, in a single lump sum payment within ninety (90) days after the Participant's Separation from Service.

#### 4.5 Duration and Cancellation of Deferral Elections.

(a) Duration. Once irrevocable, a Deferral Election shall be effective for the Plan Year (or other applicable performance period, as the case may be) with respect to which such election was timely filed with the Committee. Notwithstanding the preceding sentence, the Committee may provide, in its sole discretion, that any Deferral Elections shall continue to be applied to future Deferral Election periods, until terminated or modified prospectively by a Participant in accordance with the terms of this Article IV.

(b) Cancellation.

(i) The Committee may, in its sole discretion, cancel a Participant's Deferral Election where such cancellation occurs by the later of the end of the Plan Year in which the Participant incurs a "disability" or the 15th day of the third month following the date the Participant incurs a "disability." For purposes of this Section 4.5(b)(i), a "disability" refers to any medically determinable physical or mental impairment resulting in the Participant's inability to perform the duties of his or her position or any substantially similar position, where such impairment can be expected to result in death or can be expected to last for a continuous period of not less than six months.

(ii) The Committee may, in its sole discretion, cancel a Participant's Deferral Election due to an Unforeseeable Emergency, a hardship distribution pursuant to Treasury Regulation Section 1.401(k)-1(d)(3), or such other event or condition as may be permitted under Section 409A of the Code pursuant to generally applicable guidance published in the Internal Revenue Bulletin.



(iii) If a Participant's Deferral Election is cancelled with respect to a particular Plan Year in accordance with this Section 4.5(b), such Participant may make a new Deferral Election for a subsequent Plan Year, as the case may be, only in accordance with Section 4.2 hereof.

4.6 Vesting. Each Participant shall at all times have a fully vested interest in 100% of the deferrals of Base Salary and Incentive Compensation credited to his or her Account.

## ARTICLE V DISCRETIONARY COMPANY CREDITS

5.1 In General. In any Plan Year, the Employer, in its sole and absolute discretion, may, but shall not be required to, credit Discretionary Company Credits to a Participant's Account in any amount determined by the Employer.

5.2 Vesting. Except as otherwise may be provided in a vesting schedule established by the Employer, in its sole and absolute discretion, any Discretionary Company Credits shall be 100% as of the date credited to a Participant's Account. In any event, notwithstanding any vesting schedule that may be established hereunder with respect to Discretionary Company Credits, any such unvested Discretionary Company Credits shall become fully vested upon the occurrence of a Change in Control.

5.3 Time and Form of Payment. Except as otherwise may be determined by the Employer no later than the time of crediting to the Participant's Account, any vested Discretionary Company Credits contributed to a Participant's Account for a Plan Year shall be payable, in accordance with the default time and form of payment set out in Section 4.4(c), in a single lump sum payment within ninety (90) days after the Participant's Separation from Service.

## ARTICLE VI CREDITING OF GAINS, LOSSES AND EARNINGS TO ACCOUNTS

Each Participant's Account will be credited with gains, losses and earnings based on notional investment directions made by the Participant in accordance with notional investment crediting options and procedures established from time to time by the Committee in its sole discretion. The Committee specifically retains the right in its sole discretion to change the notional investment crediting options and procedures from time to time. By electing to defer any amount under the Plan, each Participant acknowledges and agrees that the Company is not and shall not be required to make any investment in connection with the Plan, nor is it required to follow the Participant's notional investment directions in any actual investment it may make or acquire in connection with the Plan. Any amounts credited to a Participant's Account with respect to which a Participant does not provide notional investment direction shall be credited with gains, losses and earnings as if such amounts were invested in a notional investment option selected by the Committee in its sole discretion.

## ARTICLE VII PAYMENTS



7.1 **Payment of Participant Accounts.** Except as otherwise provided in this Article VII or Section 5.2, a Participant's vested Account shall commence to be paid in accordance with the applicable time and form of payment specified in the Participant's Deferral Election for the applicable Plan Year pursuant to Section 4.4.

7.2 **Mandatory Six-Month Delay for Specified Employees.** Notwithstanding any other provision of this Plan to the contrary, in no event may payments triggered by the Separation from Service of a Specified Employee be paid or commence prior to the first Business Day of the seventh month following the Specified Employee's Separation from Service (or if earlier, within 90 days after the Specified Employee's death), with such benefits being paid (if in a lump sum) or commencing (if in substantially equal monthly installments) as soon as administratively practicable after such date.

7.3 **Death of Participant.** Notwithstanding any other provision of this Plan, in the event of the Participant's death, the vested balance of the Participant's Account shall be paid to the Participant's Beneficiary or Beneficiaries in accordance with the Participant's Beneficiary Designation (or, if there is no such Beneficiary, to the Participant's estate) in a single lump sum as soon as administratively practicable following the date of the Participant's death. A Participant's Beneficiary Designation may be changed at any time prior to his or her death by the execution and delivery of a new Beneficiary Designation. The Beneficiary Designation on file with the Committee that bears the latest date at the time of the Participant's death shall govern. If a Participant fails to properly designate a Beneficiary in accordance with this Section 7.3 or if all designated Beneficiaries have predeceased the Participant, then payment pursuant to this Section 7.3 shall be made to the Participant's surviving spouse, if living, or if none, to the Participant's estate.

7.4 **Unforeseeable Emergency.** The Committee may, in its sole discretion, provide for payment of the portion of a Participant's vested Account that is reasonably necessary to satisfy a need due to an Unforeseeable Emergency pursuant to Treasury Regulation Section 1.401(k)-3(i)(3)(iii). Any distributions because of Unforeseeable Emergency must be limited to the amount reasonably necessary to satisfy the emergency need (which may include amounts necessary to pay any federal, state, local, or foreign income taxes or penalties reasonably anticipated to result from the distribution), determined by taking into account the additional compensation upon cancellation of the Participant's Deferral Election pursuant to Section 4.5(b).

7.5 **Payment of Pre-2021 Deferrals.** Notwithstanding any other provisions of the Plan (other than Sections 7.6 and 7.7), any deferrals credited to a Participant's Account with respect to any Plan Year prior to 2021 (which deferrals, for example, may be credited to sub-accounts for "Retirement/Termination Accounts," "Specified Date Accounts," "Five Year Vesting Accounts" and "DAP Transfer Accounts") ("Pre-2021 Deferrals") will remain subject to the payment terms and Deferral Elections in effect under the terms of the Plan as in effect immediately prior to the Effective Date.

7.6 **Subsequent Deferral Elections.** A Participant may elect, subject to such administrative rules as may be prescribed by the Committee in accordance with this Section 7.6, to change the time and/or form of payment with respect to one or more of his or her Deferral



Elections for a Plan Year, to a later time in accordance with this Section 7.6 (a “Subsequent Deferral Election”). A Participant may make no more than one (1) Subsequent Deferral Election with respect to each such Deferral Election. Any such Subsequent Deferral Election must be filed with the Committee at least twelve (12) months prior to the date that the payment would otherwise have been paid pursuant to the Deferral Election. On each such Subsequent Deferral Election, the Participant must delay the payment date for a period of at least five (5) years after the date that the amount pursuant to the Deferral Election would otherwise have been paid under the Plan, except with respect to payment in the event of the Participant’s death.

7.7 Small Balances of Pre-2021 Deferrals. Solely with respect to Pre-2021 Deferrals, to the extent a Participant has elected to receive payment of his or her Retirement/ Termination Accounts in installments, then, as of the date payment from such Account is scheduled to begin, (i) the initial installment shall be no less than twenty-five thousand dollars (\$25,000) or, if less, the balance of such Account and each subsequent installment shall be no less than one thousand dollars (\$1,000) or, if less, the balance of such Account. In the event the balance of the Retirement/Termination Account as of the date of Separation from Service does not exceed twenty-five thousand dollars (\$25,000), then such balance shall be paid in a single lump sum within ninety (90) days following Separation from Service or, with respect to a Participant who is a Specified Employee as of the date such Participant incurs a Separation from Service, in the seventh month following the month in which such Separation from Service occurs, if later. This Section 7.7 shall have no application to any deferrals for Plan Years after 2020.

7.8 Discretionary Acceleration of Payments. The Committee may, in its sole discretion, accelerate the time or schedule of a payment under the Plan to a time or form otherwise permitted under Section 409A of the Code in accordance with the requirements, restrictions and limitations of Treasury Regulation Section 1.409A-3(j); provided that in no event may a payment to a Specified Employee be accelerated following the Specified Employee’s Separation from Service to a date that is prior to the first Business Day of the seventh month following the Specified Employee’s Separation from Service (or if earlier, within 90 days after the Specified Employee’s death) unless otherwise permitted under Section 409A of the Code.

7.9 Discretionary Delay of Payments. The Committee may, in its sole discretion, delay the time or form of a payment under the Plan to a time or form otherwise permitted under Section 409A of the Code in accordance with the requirements, restrictions and limitations of Treasury Regulation Section 1.409A-2(b)(7).

7.10 Actual Date of Payment. To the extent permitted by Section 409A of the Code, the Committee, in its sole discretion, may cause any payment under this Plan to be made or commence on any later date that occurs in the same calendar year as the date on which payment otherwise would be required to be made under this Plan, or, if later, by the 15th day of the third month after the date on which payment would otherwise be required to be made under this Plan. Further, to the extent permitted by Section 409A of the Code, the Committee may delay payment in the event that it is not administratively possible to make payment on the date (or within the periods) specified in this Article VII, or if making the payment would jeopardize the ability of the Company (or any entity which would be considered to be a single employer with the Company under Section 414(b) or Section 414(c) of the Code) to continue as a going concern.



Notwithstanding the foregoing, payment must be made no later than the latest possible date permitted under Section 409A of the Code.

7.11 Calculation of Installment Payments. In the event that any of the Participant's Account is paid in installments: (i) the first installment shall commence at the time specified pursuant to Section 4.4(b), (ii) each subsequent installment shall be paid on or as soon as practicable after the applicable anniversary of the payment commencement date, (iii) the amount of each installment shall equal the quotient obtained by dividing the applicable portion of the Participant's vested Account balance as of the date of such installment payment (or as of such earlier date as may be reasonably determined by the Committee to facilitate the administration of the Plan) by the number of installment payments remaining to be paid at the time of the calculation; and (iv) the amount remaining unpaid shall continue to be credited with gains, losses and earnings as provided in Article VI hereof. For purposes of Section 409A of the Code, each series of installment payments under the Plan shall be treated as right to a single payment.

7.12 Discharge of Obligations. The payment to a Participant (or to his or her Beneficiary, surviving spouse or estate) of an Account in a single lump sum or the number of installments as provided pursuant to this Plan shall discharge all obligations of the Company and any other Employer to such Participant (and such Participant's Beneficiary, surviving spouse or estate) under the Plan with respect to the Participant's Account. The Committee may require such Participant, surviving spouse or Beneficiary, as a condition precedent to such payment, to execute a receipt and release to such effect. In the event that a Participant, surviving spouse or Beneficiary is required to execute a release and the period to consider and revoke the release straddles two calendar years, payment shall be made in the second calendar year in accordance with Article VII of the Plan.

## ARTICLE VIII ADMINISTRATION AND CLAIMS PROCEDURES

8.1 General. The Committee shall be responsible for the general administration of the Plan and shall have the full power, discretion and authority to carry out the provisions of the Plan. Without limiting the foregoing, the Committee shall have full discretion to (a) interpret all provisions of the Plan; (b) resolve all questions relating to eligibility for participation in the Plan and the amount in the Account of any Participant and all questions pertaining to claims for benefits and procedures for claim review; (c) resolve all other questions arising under the Plan, including any factual questions and questions of construction; (d) determine all claims for benefits; and (e) adopt such rules, regulations or guidelines for the administration of the Plan and take such further action as the Company shall deem advisable in the administration of the Plan. Without limiting the foregoing, to the extent permitted by Section 409A of the Code, the Committee may, in its sole discretion, modify the rules applicable to Deferral Elections to the extent necessary to satisfy the requirements of the Uniformed Service Employment and Reemployment Rights Act of 1994, as amended, 38 U.S.C. 4301-4334. The actions taken and the decisions made by the Committee hereunder shall be final, conclusive, and binding on all persons, including the Company, all other Employers, Eligible Employees, Participants, and their estates and Beneficiaries. The Committee may delegate to one or more officers of the Company, subject to such terms as the Committee shall determine, the authority to administer all or any portion of the Plan, or the authority to perform



certain functions, including administrative functions. In the event of such delegation, all references to the Committee in this Plan (other than such references in the immediately preceding sentence) shall be deemed references to such officers as it relates to those aspects of the Plan that have been delegated.

## 8.2 Claims Procedure.

(a) Filing a Claim. Any controversy or claim arising out of or relating to the Plan shall be filed in writing with the Committee which shall make all determinations concerning such claim. Any claim filed with the Committee and any decision by the Committee denying such claim shall be in writing and shall be delivered to the Participant or Beneficiary filing the claim (the "Claimant").

(i) In General. Notice of a denial of benefits will be provided within 90 days of the Committee's receipt of the Claimant's claim for benefits. If the Committee determines that it needs additional time to review the claim, the Committee will provide the Claimant with a notice of the extension before the end of the initial 90-day period. The extension will not be more than 90 days from the end of the initial 90-day period and the notice of extension will explain the special circumstances that require the extension and the date by which the Committee expects to make a decision.

(ii) Contents of Notice. If a claim for benefits is completely or partially denied, notice of such denial shall be in writing and shall set forth the reasons for denial in plain language. The notice shall: (A) cite the pertinent provisions of the Plan document, and (B) explain, where appropriate, how the Claimant can perfect the claim, including a description of any additional material or information necessary to complete the claim and why such material or information is necessary. The claim denial also shall include an explanation of the claims review procedures and the time limits applicable to such procedures, including a statement of the Claimant's right to bring a civil action under Section 502(a) of ERISA following an adverse decision on review.

(b) Appeal of Denied Claims. A Claimant whose claim has been completely or partially denied shall be entitled to appeal the claim denial by filing a written appeal with the Committee. A Claimant who timely requests a review of the denied claim (or his or her authorized representative) may review, upon request and free of charge, copies of all documents, records and other information relevant to the denial and may submit written comments, documents, records and other information relevant to the claim to the Committee. All written comments, documents, records, and other information shall be considered "relevant" if the information: (x) was relied upon in making a benefits determination, (y) was submitted, considered or generated in the course of making a benefits decision regardless of whether it was relied upon to make the decision, or (z) demonstrates compliance with administrative processes and safeguards established for making benefit decisions. The Committee may, in its sole discretion and if it deems appropriate or necessary, decide to hold a hearing with respect to the claim appeal.

(i) In General. Appeal of a denied benefits claim must be filed in writing with the Committee no later than 60 days after receipt of the written notification of such



claim denial. The Committee shall make its decision regarding the merits of the denied claim within 60 days following receipt of the appeal (or within 120 days after such receipt, in a case where there are special circumstances requiring extension of time for reviewing the appealed claim). If an extension of time for reviewing the appeal is required because of special circumstances, written notice of the extension shall be furnished to the Claimant prior to the commencement of the extension. The notice will indicate the special circumstances requiring the extension of time and the date by which the Committee expects to render the determination on review. The review will take into account comments, documents, records and other information submitted by the Claimant relating to the claim without regard to whether such information was submitted or considered in the initial benefit determination.

(ii) Contents of Notice. If a benefits claim is completely or partially denied on review, notice of such denial shall be in writing and shall set forth the reasons for denial in plain language. The decision on review shall set forth: (A) the specific reason or reasons for the denial, (B) specific references to the pertinent Plan provisions on which the denial is based, (C) a statement that the Claimant is entitled to receive, upon request and free of charge, reasonable access to and copies of all documents, records, or other information relevant (as defined above) to the Claimant's claim, and (D) a statement describing any voluntary appeal procedures offered by the plan and a statement of the Claimant's right to bring an action under Section 502(a) of ERISA.

(c) Legal Action. A Claimant may not bring any legal action, including commencement of any arbitration, relating to a claim for benefits under the Plan unless and until the Claimant has followed the claims procedures under the Plan and exhausted his or her administrative remedies under such claims procedures. Any such legal action must be commenced within one year of a final determination hereunder with respect to such claim, and Claimant shall be prohibited from presenting in any such legal action any evidence that was not timely presented to the Committee as part of the Plan's administrative review process pursuant to the claims procedures set forth herein. If a Participant or Beneficiary prevails in a legal proceeding brought under the Plan to enforce the rights of such Participant or any other similarly situated Participant or Beneficiary, in whole or in part, the Participating Employer shall reimburse such Participant or Beneficiary for all legal costs, expenses, attorneys' fees and such other liabilities incurred as a result of such proceedings.

(d) Discretion of Committee. All interpretations, determinations and decisions of the Committee with respect to any claim shall be made in its sole discretion, and shall be final and conclusive.

(e) Arbitration. If any claim or controversy between a Participating Employer and a Participant or Beneficiary is not resolved through the claims procedure set forth in the preceding provisions of this Section 8.2, such claim shall be submitted to and resolved exclusively by expedited binding arbitration by a single arbitrator. Arbitration shall be conducted in accordance with the following procedures:

The complaining party shall promptly send written notice to the other party identifying the matter in dispute and the proposed remedy. Following the giving of such notice, the parties shall meet and attempt in good faith to resolve the matter. In the event the parties are unable to resolve the



matter within 21 days, the parties shall meet and attempt in good faith to select a single arbitrator acceptable to both parties. If a single arbitrator is not selected by mutual consent within ten Business Days following the giving of the written notice of dispute, an arbitrator shall be selected from a list of nine persons each of whom shall be an attorney who is either engaged in the active practice of law or recognized arbitrator and who, in either event, is experienced in serving as an arbitrator in disputes between employers and employees, which list shall be provided by the main office of either JAMS, the American Arbitration Association ("AAA") or the Federal Mediation and Conciliation Service. If, within three Business Days of the parties' receipt of such list, the parties are unable to agree on an arbitrator from the list, then the parties shall each strike names alternatively from the list, with the first to strike being determined by the flip of a coin. After each party has had four strikes, the remaining name on the list shall be the arbitrator. If such person is unable to serve for any reason, the parties shall repeat this process until an arbitrator is selected.

Unless the parties agree otherwise, within 60 days of the selection of the arbitrator, a hearing shall be conducted before such arbitrator at a time and a place agreed upon by the parties. In the event the parties are unable to agree upon the time or place of the arbitration, the time and place shall be designated by the arbitrator after consultation with the parties. Within 30 days of the conclusion of the arbitration hearing, the arbitrator shall issue an award, accompanied by a written decision explaining the basis for the arbitrator's award.

In any arbitration hereunder, the Participating Employer shall pay all administrative fees of the arbitration and all fees of the arbitrator. Each party shall pay its own attorneys' fees, costs, and expenses, unless the arbitrator orders otherwise. The prevailing party in such arbitration, as determined by the arbitrator, and in any enforcement or other court proceedings, shall be entitled, to the extent permitted by law, to reimbursement from the other party for all of the prevailing party's costs (including but not limited to the arbitrator's compensation), expenses, and attorneys' fees. The arbitrator shall have no authority to add to or to modify this Plan, shall apply all applicable law, and shall have no lesser and no greater remedial authority than would a court of law resolving the same claim or controversy. The arbitrator shall, upon an appropriate motion, dismiss any claim without an evidentiary hearing if the party bringing the motion establishes that it would be entitled to summary judgment if the matter had been pursued in court litigation.

Subject to Section 8.2(c) above, the parties shall be entitled to discovery as follows: Each party may take no more than three depositions. The Participating Employer may depose the Participant or Beneficiary plus two other witnesses, and the Participant or Beneficiary may depose the Participating Employer, pursuant to Rule 30(b)(6) of the Federal Rules of Civil Procedure, plus two other witnesses. Each party may make such reasonable document discovery requests as are allowed in the discretion of the arbitrator.

The decision of the arbitrator shall be final, binding, and non-appealable, and may be enforced as a final judgment in any court of competent jurisdiction.

This arbitration provision of the Plan shall extend to claims against any parent, subsidiary, or affiliate of each party, and, when acting within such capacity, any officer, director, shareholder, Participant, Beneficiary, or agent of any party, or of any of the above, and shall apply as well to



claims arising out of state and federal statutes and local ordinances as well as to claims arising under the common law or under this Plan.

Notwithstanding the foregoing, and unless otherwise agreed between the parties, either party may apply to a court for provisional relief, including a temporary restraining order or preliminary injunction, on the ground that the arbitration award to which the applicant may be entitled may be rendered ineffectual without provisional relief.

Any arbitration hereunder shall be conducted in accordance with the Federal Arbitration Act: provided, however, that, in the event of any inconsistency between the rules and procedures of the Act and the terms of this Plan, the terms of this Plan shall prevail.

If any of the provisions of this Section 8.2(e) are determined to be unlawful or otherwise unenforceable, in the whole part, such determination shall not affect the validity of the remainder of this section and this section shall be reformed to the extent necessary to carry out its provisions to the greatest extent possible and to insure that the resolution of all conflicts between the parties, including those arising out of statutory claims, shall be resolved by neutral, binding arbitration. If a court should find that the provisions of this Section 8.2(e) are not absolutely binding, then the parties intend any arbitration decision and award to be fully admissible in evidence in any subsequent action, given great weight by any finder of fact and treated as determinative to the maximum extent permitted by law.

The parties do not agree to arbitrate any putative class action or any other representative action. The parties agree to arbitrate only the claim(s) of a single Participant or Beneficiary.

## ARTICLE IX AMENDMENT AND TERMINATION

9.1 Amendment. The Company reserves the right to amend, terminate or freeze the Plan, in whole or in part. In no event shall any such action by the Company reduce the vested amount credited to any Participant's Account, or result in any change in the timing or manner of payment of the amount of any Account (except as otherwise permitted under the Plan, including under Sections 7.8, 7.9 and 7.10), without the consent of the Participant, unless the Company determines in good faith that such action is necessary to ensure compliance with Section 409A of the Code. Notwithstanding the foregoing, the Plan may not be terminated within twelve (12) months after a Change in Control.

9.2 Payments Upon Termination of Plan. Except as otherwise provided pursuant to Sections 7.8, 7.9 and 7.10, in the event that the Plan is terminated, the amounts credited to a Participant's Account shall be paid to the Participant or the Participant's Beneficiary, as applicable, on the dates on which the Participant or his or her Beneficiary would otherwise receive payments hereunder without regard to the termination of the Plan.

## ARTICLE X MISCELLANEOUS



10.1 Non-Alienation of Deferred Compensation. Except as permitted by the Plan, no right or interest under the Plan of any Participant or Beneficiary shall, without the written consent of the Company, be (a) assignable or transferable in any manner, (b) subject to alienation, anticipation, sale, pledge, encumbrance, attachment, garnishment or other legal process, or (c) in any manner liable for or subject to the debts or liabilities of the Participant or Beneficiary. Notwithstanding the foregoing, to the extent permitted by Section 409A of the Code and Sections 7.8 and 7.9 hereof, the Committee shall honor a judgment, order or decree from a state domestic relations court which requires the payment of part or all of a Participant's or Beneficiary's interest under this Plan to an "alternate payee" as defined in Section 414(p) of the Code.

10.2 Compliance with Section 409A of the Code. It is intended that the Plan comply with the provisions of Section 409A of the Code, so as to prevent the inclusion in gross income of any amounts deferred hereunder in a taxable year that is prior to the taxable year or years in which such amounts would otherwise actually be paid or made available to Participants (or their Beneficiaries or estates). Although the Committee shall use its best efforts to avoid the imposition of taxation, interest and penalties under Section 409A of the Code, the tax treatment of deferrals under this Plan is not warranted or guaranteed. Neither the Company nor any other Employer nor the Committee shall be held liable for any taxes, interest, penalties or other monetary amounts owed by any Participant, Beneficiary or other taxpayer as a result of the Plan. Any reference in this Plan to Section 409A of the Code will also include any proposed, temporary or final regulations, or any other guidance, promulgated with respect to such Section 409A by the U.S. Department of Treasury or the Internal Revenue Service. For purposes of the Plan, the phrase "permitted by Section 409A of the Code," or words or phrases of similar import, shall mean that the event or circumstance shall only be permitted to the extent it would not cause an amount deferred or payable under the Plan to be includible in the gross income of a Participant or Beneficiary under Section 409A(a)(1) of the Code.

10.3 Participation by Employees of Other Members of the Affiliated Group. Any member of the Affiliated Group other than the Company may, by action of the Adopting Employer's board of directors or equivalent governing body and with the consent of the Committee, adopt the Plan; provided that the Committee may waive the requirement that such board of directors or equivalent governing body of the Adopting Employer effect such adoption. By its adoption of or participation in the Plan, such Adopting Employer shall be deemed to appoint the Company its exclusive agent to exercise on its behalf all of the power and authority conferred by the Plan upon the Company and accept the delegation to the Committee of all the power and authority conferred upon it by the Plan. The authority of the Company to act as such agent shall continue until the Plan is terminated as to the Adopting Employer. An Eligible Employee who is employed by an Adopting Employer and who elects to participate in the Plan shall participate on the same basis as an Eligible Employee of the Company. The Account of a Participant employed by an Adopting Employer shall be paid in accordance with the Plan solely by such member to the extent attributable to the Compensation that would have been paid by such Adopting Employer in the absence of deferral pursuant to the Plan, unless the Committee otherwise determines that the Company shall be the obligor.



10.4 **Interest of Participant.** The obligation of the Company and any participating Employer under the Plan to make payment of amounts reflected in an Account merely constitutes the unsecured promise of the Company (or, if applicable, the participating Employer) to make payments from their general assets, and no Participant or Beneficiary shall have any interest in, or a lien or prior claim upon, any property of Company or any other Employer. Nothing in the Plan shall be construed as guaranteeing continued employment to any Eligible Employee. It is the intention of the Company that the Plan be unfunded for tax purposes and for purposes of Title I of ERISA. The Company may, but shall not be required to, create a trust to hold funds to be used in payment of benefits under the Plan, and may fund such trust; provided, however, that any funds contained therein shall remain liable for the claims of the general creditors of the Company and the other participating Employers, and no assets shall be transferred to any such trust at a time or in a manner that would cause an amount to be included in the income of a Participant pursuant to Section 409A(b) of the Code.

10.5 **Claims of Other Persons.** The provisions of the Plan shall in no event be construed as giving any other person any legal or equitable right as against the Company or any other Employer or against the officers, employees or directors of the Company or any other Employer, except any such rights as are specifically provided for in the Plan or are hereafter created in accordance with the terms and provisions of the Plan.

10.6 **Severability.** The invalidity and unenforceability of any particular provision of the Plan shall not affect any other provision hereof, and the Plan shall be construed in all respects as if such invalid or unenforceable provision were omitted.

10.7 **Governing Law.** Except to the extent preempted by federal law, the provisions of the Plan shall be governed, construed and interpreted in accordance with the laws of the State of Maryland, without reference to any conflicts or choice of law rule or principle that might otherwise refer governance, construction or interpretation of the Plan to the law of another jurisdiction.

10.8 **Successors.** The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation, reorganization or otherwise) to all or substantially all of the business and/or assets of the Company expressly to assume this Plan. This Plan shall be binding upon and inure to the benefit of the Company and any successor of or to the Company, including without limitation any persons acquiring directly or indirectly all or substantially all of the business and/or assets of the Company whether by sale, merger, consolidation, reorganization or otherwise (and such successor shall thereafter be deemed the "Company" for the purposes of this Plan), and the heirs, beneficiaries, executors and administrators of each Participant.

10.9 **Withholding of Taxes.** The Company or any other Employer may withhold or cause to be withheld from any amounts payable under the Plan, or to the extent permitted pursuant to Section 409A of the Code and Section 7.8 of the Plan, from any amounts deferred under the Plan, all federal, state, local and other taxes as shall be legally required to be withheld. Further, the Company and each other Employer shall have the right to (a) require a Participant to pay or provide for payment of the amount of any taxes that the Company other Employer may be required to withhold with respect to amounts credited to a Participant's Account under the Plan, or (b) deduct from any amount otherwise payable in cash to the Participant the amount of any taxes that the



Company or other Employer may be required to withhold with respect to amounts credited to a Participant's Account under the Plan.

10.10 **Electronic or Other Media.** Notwithstanding any other provision of the Plan to the contrary, including any provision that requires the use of a written instrument, the Committee may establish procedures for the use of electronic or other media in communications and transactions between the Plan or the Committee and Participants and Beneficiaries. Electronic or other media may include, but are not limited to, e-mail, the Internet, intranet systems and automated telephonic response systems.

10.11 **Headings; Interpretation.** Headings in this Plan are inserted for convenience of reference only and are not to be considered in the construction of the provisions hereof. Unless the context clearly requires otherwise, the masculine pronoun wherever used herein shall be construed to include the feminine pronoun.

10.12 **Participants Deemed to Accept Plan.** By accepting any benefit under the Plan, each Participant and each person claiming under or through any such Participant shall be conclusively deemed to have indicated his or her acceptance and ratification of, and consent to, all of the terms and conditions of the Plan and any action taken under the Plan by the Committee, the Company and each other Employer, in any case in accordance with the terms and conditions of the Plan.

IN WITNESS WHEREOF, the Company has caused this Plan to be executed by its undersigned duly authorized officer, to be effective as of the Effective Date.

DISCOVERY COMMUNICATIONS, LLC

By: 

Name: Ralph Beidelman

Title: SVP, Global Total Rewards

---



## EMPLOYMENT AGREEMENT

This Employment Agreement (“Agreement”) is made this 27 day of June, 2019 by and between **Discovery Communications, LLC** (“Company”) and **David Leavy** (“Executive”).

As a condition to and in consideration of the mutual promises and covenants set forth in this Agreement, Company hereby offers Executive and Executive hereby accepts employment upon the terms and conditions set forth herein. Effective March 1, 2020, this Agreement supersedes all prior employment agreements between Company and Executive.

### I. DUTIES, ACCEPTANCE, LOCATION

- A. Effective upon Executive’s execution of this Agreement, Company shall employ Executive to render exclusive and full-time services as Chief Corporate Operating Officer, upon the terms and conditions set forth herein. Executive’s duties shall be consistent with his title and as otherwise directed by Company.
- B. Executive shall report to the CEO of Company. Company reserves the right to change the individual and/or position to whom/which Executive reports and, if Company deems it necessary, subject to Section IV(D)(1)(b) hereof, the location where Executive works, except that Executive shall not report to a level lower than the CEO of Company. Executive’s primary work location shall be Company’s offices in Silver Spring, MD but he shall make himself available for travel to other locations as business needs require.
- C. Executive hereby accepts such employment and agrees to render the services described above. Throughout his employment with Company, Executive agrees to serve Company faithfully and to the best of his ability, and to devote his full business time and energy to perform the duties arising under this Agreement in a professional manner that does not discredit, but furthers the interests of Company.

### II. TERM OF EMPLOYMENT

- A. Subject to Section IV, Executive’s term of employment shall be four (4) years beginning on March 1, 2016 and ending March 1, 2020 (“Term of Employment”). By agreement of the parties, effective March 1, 2020, the term of employment is extended and shall end on March 1, 2023 (the initial and renewal terms are referred to as the “Term of Employment”).
  - B. Company shall have the option to enter negotiations with Executive to renew this Agreement with Executive for an additional term. If Company wishes to exercise its option to enter negotiations with Executive to renew this Agreement, it will give Executive written notice of its intent to enter such negotiations to renew not later than one hundred fifty (150) days prior to the
-

end of the Term of Employment. Executive and Company agree then to negotiate with each other exclusively and in good faith until seventy-five (75) days prior to the end of the Term of Employment, after which Executive shall be free to negotiate with third parties if an agreement with Company has not been reached. However, Executive shall continue to negotiate in good faith with Company and comply with the terms of this Agreement, including, but not limited to, his fiduciary and confidentiality obligations, notwithstanding Executive's right to negotiate with third parties. The Term of Employment may not, however, be extended unless by mutual agreement of the Company and Executive as to all of the material terms and conditions of the extension. In the event the parties do not enter into an agreement to extend this Agreement for an additional term, this Agreement shall expire and the Term of Employment shall end on March 1, 2023; provided, however, that if the Company elects not to renew this Agreement, Executive shall be eligible for a severance payment pursuant to Section IV(D)(2) herein. If Company offers to renew this Agreement, but the parties are unable to agree on final terms, and Executive terminates employment at the end of the Term of Employment, Executive will be eligible for a Noncompetition Payment (as defined by, and in accordance with, Sections VI(H) and IV(D)(2), below).

### III. COMPENSATION

- A. **Base Salary.** Effective March 1, 2020, Company agrees to provide Executive with an annual base salary of \$1,300,000. Executive shall not be eligible for a merit increase in March 2020 for the 2019 performance review cycle. Beginning March 1, 2020, this sum will be paid over the course of twelve (12) months, in increments paid on regular Company paydays, less such sums as the law requires Company to deduct or withhold. Executive's future salary increases will be reviewed and decided in accordance with Company's standard practices and procedures for similarly-situated executives.
- B. **Bonus/Incentive Payment.** Effective March 1, 2020, in addition to the base salary paid to Executive pursuant to Section III(A), Executive shall be eligible for an annual incentive payment target of one hundred fifteen percent (115%) of his base salary. Executive's bonus payment for FY2020 shall be calculated based on Executive's blended base salary and blended incentive target percentage for the year. The portion of the incentive payment to be received by Executive will be determined in accordance with Company's applicable incentive or bonus plan in effect at that time (e.g., subject to reduction for Company under-performance and increase for Company over-performance) and will be paid in accordance with the applicable incentive or bonus plan.
- C. **Benefits.** Executive shall be entitled to participate in and to receive any and all benefits generally available to executives at Executive's level in the Company in accordance with the terms and conditions of the applicable plan

or arrangement. Executive shall be entitled to vacation pursuant to Company's vacation policy but shall receive no less than twenty-five (25) days paid vacation per year.

- D. **Equity.** The Compensation Committee has reviewed the appropriate annual equity target for Executive for the annual award to be made in March 2020 and has determined that the target value shall be \$2,000,000, and that value shall be used as the "core" value in determining the recommended equity grant for Executive in March 2020. The equity instruments, terms and conditions, and calculation of number of units shall be based on Company's standard practices and procedures for awards to senior executives at Executive's level.
- E. **Expenses.** Company shall reimburse Executive for business, travel and entertainment expenses reasonably and actually incurred in the performance of Executive's duties pursuant to this Agreement to the extent such expenses are incurred and reimbursement is sought in accordance with Company's business, travel, and entertainment policies and procedures applicable to executives at Executive's level in Company as in effect from time to time. Executive's right to be reimbursed for expenses incurred prior to the termination or expiration of this Agreement shall survive such termination or expiration, provided that Executive submits documentation in accordance with Company's policy applicable to executives at Executive's level in Company within ninety (90) days of Executive's last day of employment.
- F. **Insurance.** Executive shall be eligible for and entitled to insurance coverage under Company's director and officer liability insurance and employment practices liability insurance policies in accordance with those policies and in amounts similar to coverage afforded other senior executives of Company for activities on behalf of Company and its subsidiaries, and otherwise shall be eligible for and entitled to indemnification in accordance with Company's corporate governance requirements.

#### IV. TERMINATION OF EMPLOYMENT AND AGREEMENT

- A. **Death.** If Executive should die during the Term of Employment, this Agreement will terminate. No further amounts or benefits shall be payable except earned but unpaid base salary, accrued but unused vacation, unreimbursed expenses submitted in accordance with III. E above, and those benefits that may vest in accordance with the controlling documents for other relevant Company benefits programs, which shall be paid in accordance with the terms of such other Company benefit programs, including the terms governing the time and manner of payment (the "Accrued Benefits"). Company also shall pay a prorated portion of Executive's then-current annual bonus target for that calendar year based on the amount of time Executive was employed during the calendar year (and subject to achievement of any

applicable performance metric). Executive's then-outstanding equity awards under the Stock Plan shall be treated in accordance with the applicable plan documents and implementing award agreements.

**B. Inability To Perform Duties.** If, during the Term of Employment, Executive should become physically or mentally disabled, such that he is unable to perform his duties under Sections I (A) and (C) hereof for (i) a period of six (6) consecutive months or (ii) for shorter periods that add up to six (6) months in any eight (8)-month period, by written notice to the Executive, Company may terminate this Agreement. Notwithstanding the foregoing, Executive's employment shall terminate upon Executive incurring a "separation from service" under the medical leave rules of Section 409A. In that case, no further amounts or benefits shall be payable to Executive, except that Executive shall receive the Accrued Benefits, a prorated portion of Executive's then-current annual bonus target for that calendar year based on the amount of time Executive was employed during the calendar year (and subject to achievement of any applicable performance metric), and, until (i) he is no longer disabled or (ii) he becomes 65 years old -- whichever happens first -- Executive may be entitled to receive continued coverage under the relevant medical or disability plans to the extent permitted by such plans and to the extent such benefits continue to be provided to the Company executives at Executive's level in the Company generally, provided that in the case of any continued coverage under one or more of Company's medical plans, if Company determines that the provision of continued medical coverage at Company's sole or partial expense may result in Federal taxation of the benefit provided thereunder to Executive or his dependents because such benefits are provided by a self-insured basis by Company, then Executive shall be obligated to pay the full monthly or similar premium for such coverage under the Consolidated Omnibus Budget Reconciliation Act ("COBRA"). In such event, Company shall pay Executive, in a lump sum, within 30 days following the Company's determination that the benefits may be taxable, an amount equivalent to the monthly premium for COBRA coverage for the remaining balance of the Term of Employment (based on the COBRA rates then in effect). Executive's then-outstanding equity awards under the Stock Plan shall be treated in accordance with the applicable plan documents and implementing award agreements.

**C. Termination For Cause.**

1. Company may terminate Executive's employment and this Agreement for Cause by written notice. Cause shall mean under this paragraph: (i) the conviction of, or nolo contendere or guilty plea, to a felony (whether any right to appeal has been or may be exercised); (ii) conduct constituting embezzlement, material misappropriation or fraud, whether or not related to Executive's employment with the

Company; (iii) conduct constituting a financial crime, material act of dishonesty or conduct in violation of Company's Code of Ethics; (iv) improper conduct substantially prejudicial to the Company's business; (v) willful unauthorized disclosure or use of Company confidential information; (vi) material improper destruction of Company property; or (vii) willful misconduct in connection with the performance of Executive's duties.

2. In the event that Executive materially neglects his duties under Sections I(A) or (C) hereof or engages in other conduct that constitutes a breach by Executive of this Agreement (collectively "Breach"), Company shall so notify Executive in writing and with reasonable specificity of the ground for the breach. Executive will be afforded a one-time-only opportunity to cure the noted Breach within ten (10) days from receipt of this notice. If no cure is achieved within this time, or if Executive engages in the same Breach a second time after once having been given the opportunity to cure, Company may terminate this Agreement by written notice to Executive.
3. Any termination of employment pursuant to Sections IV(C)(1) or Section IV(C)(2) hereof shall be considered a termination of Executive's employment "For Cause" (or for "Cause") and upon such termination, Executive shall only be entitled to receive any amounts or benefits hereunder that have been earned or vested at the time of such termination in accordance with the terms of the applicable governing Company plan(s), (including the provisions of such plan(s) governing the time and manner of payment), and/or as may be required by law. "Cause" as used in any such Company plan shall be deemed to mean solely the commission of the acts described in Sections IV(C)(1) or Section IV(C)(2) hereof (after giving effect to the cure opportunity described therein).

**D. Termination Of Agreement By Executive for Good Reason/Termination of Agreement by Company Not For Cause.**

1. Company may terminate Executive's employment and this Agreement not for Cause (as "Cause" is defined above), and Executive may terminate his employment and this Agreement for "Good Reason" as defined herein. "Good Reason" for purposes of this Agreement shall only mean the occurrence of any of the following events without Executive's consent: (a) a material reduction in Executive's duties or responsibilities ; (b) Company's material change in the location of the Company office where Executive works (i.e., relocation to a location outside the Washington, DC metropolitan area), or (c) a material breach by the Company of this Agreement including the change of

Executive's reporting relationship to a level lower than the CEO of Company, provided however, that Executive must provide the Company with written notice of the existence of the change constituting Good Reason within sixty (60) days of any such event having occurred or Executive learning of the event, whichever is later, and allow the Company thirty (30) days to cure the same. If Company so cures the change, Executive shall not have a basis for terminating his employment for Good Reason with respect to such cured change. Executive must terminate his employment in writing within five (5) days following the expiration of Company's cure period for the termination to be on account of Good Reason or such right shall be deemed waived.

2. If Company terminates Executive's employment and this Agreement not for Cause, or if Executive terminates his employment and this Agreement for Good Reason then, subject to Section IV(D)(3), the Company shall pay the Executive the Accrued Benefits, and Executive's then-outstanding equity awards under the Stock Plan shall be treated in accordance with the applicable plan documents and implementing award agreements, and the Company will also make the following payments ("Severance Payment"):

- (a) On the Release Deadline (as defined below), and following Executive's date of termination, Company will commence to pay Executive his Base Salary in an aggregate amount equal to the period which is the longer of (i) the balance of the Term of Employment, (ii) twenty-six (26) weeks, or (iii) the number of weeks of severance to which the Executive would have been entitled had the Company's then-current redundancy severance plan applied to Executive's termination, except that the first installment payment shall include any installments that would have been payable between the date of termination and the Release Deadline had the Release requirement under Section (IV)(D)(3) hereof been satisfied on the date of termination (the "Base Salary Continuation").

Except as provided in this Section IV(D)(2) with respect to the first installment payment, the Base Salary Continuation shall be paid in substantially equal increments on regular Company paydays, less required deductions and withholdings, until the balance is paid in full.

- (b) Executive will be paid his full bonus under the Company's incentive or bonus plan for the year in which the termination occurs. The bonus/incentive payment portion of the Severance Payment will be paid in the year following the calendar year in which the termination occurs on the date that Company pays bonuses/incentive

payments to its other executives at Executive's level in the Company and will be paid at the target amount set forth in Section III(B), subject to Company/Division performance but not more than 100 percent for Company/Division's target performance.

(c) The Company shall reimburse Executive for up to 18 months of continued health coverage (medical, dental, and vision) under the applicable Company medical plan pursuant to COBRA, should Executive be eligible for and elect COBRA. These reimbursements shall be subject to required withholdings. In the event the balance of the Term of Employment is greater than 18 months, the Company shall pay Executive at the end of the 18 month period an amount equivalent to the then-current COBRA premium for the number of additional months in the balance of the Term of Employment. If Company determines in good faith that the provision of continued medical coverage at Company's sole or partial expense may result in Federal taxation of the benefit provided thereunder to Executive or his dependents because such benefits are provided by a self-insured basis by Company, then Executive shall be obligated to pay the full monthly or similar premium for such coverage under COBRA. In such event, Company shall pay Executive, in a lump sum, within 30 days following the Company's determination that the benefits may be taxable, an amount equivalent to the monthly premium for COBRA coverage for the remaining balance of the Term of Employment (based on the COBRA rates then in effect).

3. No Severance Payment will be made if Executive fails to sign a release substantially in the form attached hereto as Exhibit A. Such release must be executed and become effective within the sixty (60) calendar day period following the date of Executive's "separation from service" within the meaning of Section 409A (the last day of such period being the "Release Deadline"). No Severance Payment will be made if Executive violates the provisions of Section VI hereof, in which case all Severance Payment shall cease, and Company may seek forfeiture of Severance Payments already made.
4. Company agrees that if, at the time Executive is Terminated not For Cause, or Executive terminates his employment for Good Reason, Company has a standard severance policy in effect that would be applicable in the absence of this Agreement (i.e., applicable to the circumstances surrounding the termination) and that would result in Executive's receiving a sum greater than this Severance Payment, Executive will receive whichever is the greater of these two payments; provided, that if (i) the standard severance policy would provide for a sum greater than the Severance Payment, and (ii) the payment schedule under the Severance Policy is different from the payment schedules for the Severance Payment and would result in an

impermissible acceleration or delay in payment in violation of the time and manner of payment requirements of Section 409A, then the payment schedule provided in the Company's standard severance policy shall only apply to the portion of the amount payable under the standard severance policy that exceeds the Severance Payment.

5. If Executive terminates this Agreement before the Term of Employment has expired for a reason other than those stated in Section IV(D)(1) hereof, it will be deemed a material breach of this Agreement. Executive agrees that, in that event, in addition to any other rights and remedies which Company may have as a result of such breach, he will forfeit all right and obligations to be compensated for any remaining portion of his annualized base salary, Severance Payment, bonus/incentive payment that may otherwise be due under this Agreement, pursuant to other Company plans or policies, or otherwise, except as may be required by law. Executive further agrees that this breach would cause substantial harm to the Company's business and prospects. Executive agrees that Executive committing this breach shall mean that he owes Company the prompt payment of cash equivalent to six (6) months of base salary (on a gross basis before taxes). Furthermore, Executive acknowledges and agrees that the full damages for Executive's breach are not subject to calculation and that the amount owed under the preceding sentence, therefore, will only reimburse Company for a portion of the damage done. For this reason, Company shall remain entitled to recover from Executive any and all damages Company has suffered and, in addition, Company will be entitled to injunctive relief. The parties agree that the repayment described in this Section IV(D) is expressly not Company's exclusive or sole remedy.
- E. Right To Offset.** In the event that Executive secures employment or any consulting or contractor or business arrangement for services he performs during the period that any payment from Company is continuing or due under Section IV(D) hereof, Executive shall have the obligation to timely notify Company of the source and amount of payment ("Offset Income"). Company shall have the right to reduce the Severance Payment by the Offset Income. Executive acknowledges and agrees that any deferred compensation for his services from another source that are performed while receiving Severance Payment from Company, will be treated as Offset Income (regardless of when Executive chooses to receive such compensation). In addition, to the extent that Executive's compensation arrangement for the services include elements that are required to be paid later in the term of the arrangement (e.g., bonus or other payments that are earned in full or part based on performance or service requirements for the period during which the Severance Payment is made), the Company may calculate the Offset Income by annualizing or by using any

other reasonable methodology to attribute the later payments to the applicable period of the Severance Payment. Executive agrees to provide Company with information sufficient to determine the calculation of the Offset Income, including compensation excerpts of any employment agreement or other contract for services, Form W-2s, and any other documentation that the Company reasonably may require, and that failure to provide timely notice to the Company of Offset Income or to respond to inquiries from Company regarding any such Offset Income shall be deemed a material breach of this Agreement. In such event, Executive also agrees that Company shall have the right to inquire of third party individuals and entities regarding potential Offset Income and to inform such parties of Company's right of offset under this Agreement with Executive. Accordingly, Executive agrees that no further Severance Payment from Company will be made until or unless this breach is cured and that all payments from Company already made to Executive, during the time he failed to disclose his Offset Income, shall be forfeited and must be returned to Company upon its demand up to the amount of the Offset Income attributable to such period. Any offsets made by the Company pursuant to this Section IV(E) shall be made at the same time and in the same amount as a Severance Payment amount is otherwise payable (applying the Offset Income to the Company's payments in the order each are paid) so as not to accelerate or delay the payment of any Severance Payment installment. Furthermore, in the event that Executive provides Competitive Services during the first six months after the expiration of the Restricted Period (both as defined in Section VI), and fails to obtain the Company's prior written consent to do so, Executive shall not be entitled to any Severance Payment during any period of such six-month period in which he is providing Competitive Services.

- F. **Mitigation.** In the event of termination of employment pursuant to Section IV(D) herein, and during the period that any payment from Company is continuing or due under Section IV(D), Executive shall be under a continuing obligation to seek other employment, including taking all reasonable steps to identify and apply for any comparable, available jobs for which Executive is qualified. This obligation to seek other employment shall not apply during the Restricted Period, as defined in Section VI(A). At the Company's request, Executive may be required to furnish to the Company proof that Executive has engaged in efforts consistent with this paragraph, and Executive agrees to comply with any such request. Executive further agrees that the Company may follow-up with reasonable inquiries to third parties to confirm Executive's mitigation efforts. Should the Company determine in good faith that Executive failed to take reasonable steps to secure alternative employment consistent with this paragraph, the Company shall be entitled to cease or reduce any payments due to Executive pursuant to Section IV(D)(2).

## V. CONFIDENTIAL INFORMATION

- A. Executive acknowledges his fiduciary duty to Company. As a condition of employment, Executive agrees to protect and hold in a fiduciary capacity for the benefit of Company (except as required by law or as may be required within the scope of his duties hereunder) all confidential information, knowledge or data, including the terms of this Agreement and, without limitation, all trade secrets relating to Company or any of its subsidiaries, and their respective businesses, (i) obtained by the Executive during his employment by Company or otherwise and (ii) that is not otherwise publicly known (other than by reason of an unauthorized act by the Executive). After termination of the Executive's employment with Company, Executive shall not communicate or divulge any such information, knowledge or data to anyone other than Company and those designated by it, without the prior written consent of Company. For the avoidance of doubt, and notwithstanding the foregoing, nothing herein or in this Agreement shall (x) prohibit Executive from communicating with a government agency, regulator or legal authority concerning any possible violations of federal or state law or regulation, or (y) prevent or limit Executive from discussing his terms and conditions of employment. Nothing herein or in this Agreement, however, authorizes the disclosure of information Executive obtained through a communication that was subject to the attorney-client privilege, unless disclosure of the information would otherwise be permitted by an applicable law or rule. Further, Executive shall have the right to disclose the terms of this Agreement to immediate family, Executive's representatives (e.g., attorneys, agents), and prospective employers.
- B. In the event that Executive is compelled, pursuant to a subpoena or other order of a court or other body having jurisdiction over such matter, to produce any information relevant to Company, whether confidential or not, Executive agrees to provide Company with written notice of this subpoena or order so that Company may timely move to quash if appropriate unless such notice to Company is prohibited by law or procedure.
- C. Subject to the reasonable approval of executive's then-employer, if any, Executive also agrees to reasonably cooperate with Company in any legal action for which his participation is needed. Company agrees to try to schedule all such meetings so that they do not unduly interfere with Executive's pursuits after he is no longer in Company's employ. Company shall reimburse Executive for reasonable out-of-pocket travel expenses for such cooperation.

## VI. RESTRICTIVE COVENANTS

- A. Executive covenants that during his employment with Company and, for a period of six (6) months after the conclusion of Executive's employment with Company (the "Restricted Period"), he will not, directly or indirectly, on his

own behalf or on behalf of any entity or individual, engage in the following activities within the Restricted Territory: any business activities involving nonfiction, scripted, sports, lifestyle, or general entertainment television (whether in cable, broadcast, free to air, or any other distribution method), or business activities otherwise competitive with any area of the Company for which Executive had management responsibilities during the three years prior to the termination date (“Competitive Services”). The Restricted Territory is the United States and any other country for which the Executive had direct and material management responsibility (e.g., supervised employees located in that country or was involved to a material extent in business or programming operations in that country) at any time during the three (3) years prior to the Executive’s separation from employment. This provision shall not prevent Executive from owning stock in any publicly-traded company. Executive agrees that this Section VI (A) is a material part of this Agreement, breach of which will cause Company irreparable harm and damages, the loss of which cannot be adequately compensated at law. In the event that the provisions of this paragraph should ever be deemed to exceed the limitations permitted by applicable laws, Executive and Company agree that such provisions shall be reformed to the maximum limitations permitted by the applicable laws. In the event that the Executive is placed on “garden leave” pursuant to Section IV (D) prior to separation and the period of Base Salary Continuation is less than six months, the Restricted Period shall be six months or the period of Base Salary Continuation, whichever is shorter.

- B.** If Executive wishes to pursue Competitive Services during the Restricted Period and to obtain the written consent of the Company before doing so, Executive may request consent from the Company by providing written evidence, including assurances from Executive and his potential employer, that the fulfillment of Executive’s duties in such proposed work or activity would not involve any use, disclosure, or reliance upon the confidential information or trade secrets of the Company. The Company shall respond within one (1) week after Company’s receipt of such a request provided that Executive has provided the assurances and sufficient information upon which the Company reasonably may assess the request. If the Company determines that it does not have the sufficient evidence upon which to assess, the Company shall set forth the information needed in reasonable detail within one (1) week of receiving the request.

In the event that (1) Executive receives an offer to perform Competitive Services and seeks such consent from the Company, and the Company determines that the proposed services violate the covenants of Section VI(A) and does not provide consent, and (2) Executive is receiving the Noncompetition Payment from the Company as set forth in Section II(B), the Company will commence to pay Executive one hundred percent (100%) of his base salary for that portion of the Restricted Period that Executive is restricted from performing (and does not perform) the proposed services.

- C. During his employment and for a period of eighteen (18) months following the conclusion of Executive's employment with Company, Executive covenants that he will not directly or indirectly solicit, recruit, interfere with or otherwise attempt to entice, any employees of Company or its subsidiary and affiliated companies to leave their employment, other than Executive's then-assistant.
- D. During his employment and for a twelve (12) month period following the conclusion of Executive's employment with Company, Executive covenants that he will not directly or indirectly solicit, recruit, interfere with or otherwise attempt to entice, solicit, induce or encourage any vendor, producer, independent contractor, or business partner to terminate its business relationship with Company or its subsidiary and affiliated companies.
- E. During the period Executive is employed by Company, Executive covenants and agrees not to engage in any other business activities whatsoever, or to directly or indirectly render services of a business, commercial or professional nature to any other business entity or organization, regardless of whether Executive is compensated for these services. The only exception to this provision is if Executive obtains the prior written consent of Company's Chief Executive Officer.
- F. Throughout the period that Executive is an employee of Company, Executive agrees to disclose to Company any direct investments (i.e., an investment in which Executive has made the decision to invest in a particular company) he has in a company that is a competitor of Company ("Competitor") or that Company is doing business with during the Term of Employment ("Partner"), if such direct investments result in Executive or Executive's immediate family members, and/or a trust established by Executive or Executive's immediate family members, owning five percent or more of such a Competitor or Partner. This Section VI(F) shall not prohibit Executive, however, from making passive investments (i.e., where Executive does not make the decision to invest in a particular company, even if those mutual funds, in turn, invest in such a Competitor or Partner). Regardless of the nature of Executive's investments, Executive herein agrees that his investments may not materially interfere with Executive's obligations and ability to provide services under this Agreement.
- G. Prior to the conclusion of Executive's employment with Company, Executive shall return all Company property and materials, including without limitation, equipment, such as laptop computers and mobile telephones, and documentation, such as files (including originals and copies), notes, e-mail accounts and computer disks.

- H. If Company offers to renew this Agreement, the parties are unable to agree to final terms, and Executive terminates employment at the end of the Term of Employment, Executive will be eligible for a Noncompetition Payment. Provided that Executive signs a release substantially in the form attached hereto, and such release is executed and becomes effective on or before the Release Deadline (as defined in Section IV(D)(2)), on the Release Deadline, Company will commence to pay Executive an amount equal to 50% of Executive's annual base salary for the Restricted Period in addition to all of the Accrued Benefits. The Noncompetition Payment shall be paid in substantially equal increments on regular Company paydays, less required deductions and withholdings, until the balance is paid in full, provided that Executive complies with the provisions of this Section VI.
- I. In the event that Executive violates any provision of this Section VI, in addition to any injunctive relief and damages to which Executive acknowledges Company would be entitled, all Severance Payment or Noncompetition Payment to Executive, if any, shall cease, and Company may seek forfeiture of Severance Payments already made.

## VII. ARBITRATION

- A. **Submission To Arbitration.** Company and Executive agree to submit to arbitration all claims, disputes, issues or controversies between Company and Executive or between Executive and other employees of Company or its subsidiaries or affiliates (collectively "Claims") directly or indirectly relating to or arising out of Executive's employment with Company or the termination of such employment including, but not limited to Claims under Title VII of the Civil Rights Act of 1964, as amended, the Civil Rights Act of 1991, the Age Discrimination in Employment Act of 1967, the Americans With Disabilities Act of 1990, Section 1981 of the Civil Rights Act of 1966, as amended, the Family Medical Leave Act, the Employee Retirement Income Security Act, any Claim arising out of this Agreement, and any similar federal, state or local law, statute, regulation or common law doctrine.
- B. **Use Of AAA. Choice of Law.** All Claims for arbitration shall be presented to the American Arbitration Association ("AAA") in accordance with its applicable rules. The arbitrator(s) shall be directed to apply the substantive law of federal and state courts sitting in Maryland, without regard to conflict of law principles. Any arbitration, pursuant to this Agreement, shall be deemed an arbitration proceeding subject to the Federal Arbitration Act.
- C. **Binding Effect.** Arbitration will be binding and will afford parties the same options for damage awards as would be available in court. Executive and Company agree that discovery will be allowed and all discovery disputes will be decided exclusively by arbitration.

- D. Damages and Costs.** Any damages shall be awarded only in accord with applicable law. The arbitrator may only order reinstatement of the Executive if money damages are insufficient. The parties shall share equally in all fees and expenses of arbitration. However, each party shall bear the expense of its own counsel, experts, witnesses and preparation and presentation of proof.

#### VIII. CONTROLLING LAW AND ADDITIONAL COVENANTS

- A.** The validity and construction of this Agreement or any of its provisions shall be determined under the laws of Maryland. The invalidity or unenforceability of any provision of this Agreement shall not affect or limit the validity and enforceability of the other provisions.
- B.** If any provision of this Agreement is held by a court of competent jurisdiction to be invalid, void or unenforceable, the remaining provisions shall nevertheless continue in full force without being impaired or invalidated.
- C.** Executive warrants that (1) his employment under this Employment Agreement will not violate or conflict in any way with any other contract or agreement to which Executive is bound; (2) Executive will do nothing on behalf of Company that violates or conflicts with any such contract or agreement; and (3) Executive will indemnify Company for any liability, damages, costs, or reasonable outside attorneys' fees that Company suffers as a result of any such violation or conflict.
- D.** Executive expressly acknowledges that Company has advised Executive to consult with independent legal counsel of his choosing to review and explain to Executive the legal effect of the terms and conditions of this Agreement prior to Executive's signing this Agreement.
- E.** This Agreement supersedes any and all other agreements, either oral or in writing, between the parties with respect to the employment of Executive by Company, and contains all of the covenants and agreements between the parties with respect to such employment in any manner whatsoever. Each party to this Agreement acknowledges that no representations, inducements, promises or agreements, orally or otherwise, have been made by any party, or anyone acting on behalf of any party, that are not stated in this Agreement, and that no other agreement, statement or promise not contained in this Agreement shall be valid or binding.
- F.** Any modifications to this Agreement will be effective only if in writing and signed by both parties.
- G.** Any payments to be made by Company hereunder shall be made subject to applicable law, including required deductions and withholdings.

**H. Section 409A of the Code.**

1. It is intended that the provisions of this Agreement comply with Section 409A of the Code and the regulations and guidance promulgated thereunder (collectively, "Code Section 409A"), and all provisions of this Agreement shall be construed in a manner consistent with the requirements for avoiding taxes or penalties under Code Section 409A. Notwithstanding the foregoing, the Company shall have no liability with regard to any failure to comply with Code Section 409A so long as it has acted in good faith with regard to compliance therewith.
2. If under this Agreement, an amount is to be paid in two or more installments, for purposes of Code Section 409A, each installment shall be treated as a separate payment.
3. A termination of employment shall not be deemed to have occurred for purposes of any provision of this Agreement providing for the payment of amounts or benefits upon or following a termination of employment unless such termination is also a "Separation from Service" within the meaning of Code Section 409A and, for purposes of any such provision of this Agreement, references to a "resignation," "termination," "termination of employment" or like terms shall mean Separation from Service.
4. If Executive is deemed on the date of termination of his employment to be a "specified employee", within the meaning of that term under Section 409A(a)(2)(B) of the Code and using the identification methodology selected by the Company from time to time, or if none, the default methodology, then:
  - a. With regard to any payment, the providing of any benefit or any distribution of equity upon separation from service that constitutes "deferred compensation" subject to Code Section 409A, such payment, benefit or distribution shall not be made or provided prior to the earlier of (i) the expiration of the six-month period measured from the date of the Executive's Separation from Service or (ii) the date of the Executive's death; and
  - b. On the first day of the seventh month following the date of Executive's Separation from Service or, if earlier, on the date of his death, (x) all payments delayed pursuant to this Section VIII(H)(4) (whether they would otherwise have been payable in a single sum or in installments in the absence of such delay) shall be paid or reimbursed to the Executive in a lump sum,

and any remaining payments and benefits due under this Agreement shall be paid or provided in accordance with the normal dates specified from them herein and (y) all distributions of equity delayed pursuant to this Section VIII(H)(4) shall be made to Executive.

5. With regard to any provision herein that provides for reimbursement of costs and expenses or in-kind benefits, except as permitted by Code Section 409A, (i) the right to reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit, (ii) the amount of expenses eligible for reimbursement, of in-kind benefits, provided during any taxable year shall not affect the expenses eligible for reimbursement, or in-kind benefits to be provided, in any other taxable year, provided that the foregoing clause (ii) shall not be violated without regard to expenses reimbursed under any arrangement covered by Section 105(b) of the Code solely because such expenses are subject to a limit related to the period the arrangement is in effect and (iii) such payments shall be made on or before the last day of the Executive's taxable year following the taxable year in which the expense occurred.
  6. Whenever a payment under this Agreement specifies a payment period with reference to a number of days (e.g., "payment shall be made within thirty (30) days following the date of termination), the actual date of payment within the specified period shall be within the sole discretion of the Company.
- I.** This Agreement shall be binding upon and inure to the benefit of the parties and their respective successors, heirs (in the case of the Executive) and assigns. The rights or obligations under this Agreement may not be assigned or transferred by either party, except that such rights or obligations may be assigned or transferred pursuant to a merger or consolidation in which the Company is not the continuing entity, or the sale or liquidation of all or substantially all of the assets of the Company; provided, however, that the assignee or transferee is the successor to all or substantially all of the assets of the Company and such assignee or transferee assumes the liabilities, obligations and duties of the Company, as contained in this Agreement, either contractually or as a matter of law.
- J.** This Agreement may be executed with electronic signatures, in any number of counterparts, as shall subsequently be executed with actual signatures. The electronically signed Agreement shall constitute one original agreement. Duplicates and electronically signed copies of this Agreement shall be effective and fully enforceable as of the date signed and sent.

K. All notices and other communications to be made or otherwise given hereunder shall be in writing and shall be deemed to have been given when the same are (i) addressed to the other party at the mailing address, facsimile number or email address indicated below, and (ii) either: (a) personally delivered or mailed, registered or certified mail, first class postage-prepaid return receipt requested, (b) delivered by a reputable private overnight courier service utilizing a written receipt or other written proof of delivery, to the applicable party, (c) faxed to such party, or (d) sent by electronic email. Any notice sent in the manner set forth above by United States Mail shall be deemed to have been given and received three (3) days after it has been so deposited in the United States Mail, and any notice sent in any other manner provided above shall be deemed to be given when received. The substance of any such notice shall be deemed to have been fully acknowledged in the event of refusal of acceptance by the party to whom the notice is addressed. Until further notice given in according with the foregoing, the respective addresses, fax numbers and email addresses for the parties are as follows:

If to Company:

Discovery Communications, LLC

8403 Colesville Road

Silver Spring, MD 20910-6331

Attention: Fabienne Clermont, Esq.

Fax: (240) 662-8656

Email: fabienne\_clermont@discovery.com

If to Executive, at the home address then on file with the Company and with a concurrent copy to:

Del Shaw Moonves Tanaka Finkelstein & Lezcano  
2029 Century Park E, Suite 1750  
Los Angeles, CA 90067  
Attn: Jeffrey S. Finkelstein, Esq.

In witness whereof, the parties have caused this Agreement to be duly executed as set forth below.

EXECUTIVE:

/s/David Leavy

\_\_\_\_\_  
David Leavy

DATE:

6/27/2019

DATE:

6/28/2019

DISCOVERY COMMUNICATIONS, LLC:

/s/Adria Alpert Romm

\_\_\_\_\_  
Name: Adria Alpert Romm

Title: Chief People and Culture Officer

**AGREEMENT AND GENERAL RELEASE**

This Agreement and General Release ("Release") is entered into by and between Discovery Communications, LLC ("Company") and \_\_\_\_\_ ("Executive") to resolve any and all disputes concerning his employment with Company and his separation from employment on \_\_\_\_\_. Accordingly, in exchange for the consideration and mutual promises set forth herein, the parties do hereby agree as follows:

1. Effective close of business \_\_\_\_\_, Executive's employment with Company will terminate, and all salary continuation and benefits will cease other than those to which Executive is entitled in consideration for this Release as set forth in Executive's Employment Agreement with Company ("Agreement"), which is incorporated by reference, and as a matter of law (e.g., COBRA benefits).
  2. In consideration for Executive's executing this Release of any and all legal claims he might have against the Discovery Parties (as defined below), and the undertakings described herein, and to facilitate his transition to other employment, Company agrees to provide Executive with the consideration detailed in Section IV(D) ("Severance Payment") of the Agreement.
  3. Neither Company nor Executive admits any wrongdoing of any kind, and Executive agrees that neither Executive nor anyone acting on his behalf will disclose this Release, or its terms and conditions. Notwithstanding the foregoing, Executive is not barred from disclosing this Release to his legal, financial and personal advisors or to those persons essential for Executive to (a) implement or enforce his rights under this Release and the Agreement in which the Release is incorporated; (b) defend himself in a lawsuit, investigation or administrative proceeding; (c) file tax returns; or (d) advise a prospective employer, business partner or insurer of the contractual restrictions on his post-Company employment.
  4. In exchange for the undertakings by Company described in the above paragraphs:
    - a. Executive, for himself, his heirs, executors, administrators and assigns, does hereby release, acquit and forever discharge Company, its subsidiaries, affiliates and related entities, as well as all of their respective officers, shareholders, shareholder representatives, directors, members, partners, trustees, employees, attorneys, representatives and agents (collectively, the "Discovery Parties"), from any and all claims, demands, actions, causes of action, liabilities, obligations, covenants, contracts, promises, agreements, controversies, costs, expenses, debts, dues, or attorneys' fees of every name and nature, whether known or unknown, without limitation, at law, in equity or administrative, against the Discovery Parties that he may have had, now has or may have against the Discovery Parties by reason of any matter or thing arising from the beginning of the world to the day and date of this Release, including any claim relating to the termination of his employment with any Discovery Party. Those claims, demands, liabilities and obligations from which Executive releases the Discovery Parties include, but are not limited to, any claim, demand or action, known or unknown, arising out of any transaction, act or omission related to Executive's employment by any Discovery Party and Executive's separation from such employment, sounding in tort or contract and/or any cause of action arising under federal, state or local statute or ordinance or common law, including, but not limited to, the
-

federal Age Discrimination In Employment Act of 1967, Title VII of the Civil Rights Act of 1964, as amended, the Americans With Disabilities Act, the Family and Medical Leave Act, the Equal Pay Act, the Worker Adjustment and Retraining Notification Act, the Maryland Human Rights Act, as well as any similar state or local statute(s), in each case as any such law may be amended from time to time. Notwithstanding the foregoing, nothing contained herein shall release Company from (1) the obligations set forth in this Release, (2) claims for vested benefits under any tax qualified benefit plan, (3) any claim that arises after the date Executive signs this Release, or (4) any claim that cannot by law be released.

b. Nothing in this Release, including but not limited to the general release and non-disparagement or confidentiality provisions, (1) prevents Executive from filing a charge or complaint with or from participating in an investigation or proceeding conducted by the Equal Employment Opportunity Commission, the National Labor Relations Board, the Securities and Exchange Commission, or any other federal, state, or local agency charged with the enforcement of any laws, including providing documents or other information (through otherwise lawful means), (2) prevents Executive from exercising Executive's rights under Section 7 of the National Labor Relations Act to engage in protected, concerted activity with other employees, although by signing this Release Executive is waiving Executive's right to recover any individual relief (including any backpay, frontpay, reinstatement, or other legal or equitable relief) in any charge, complaint, lawsuit, or other proceeding brought by Executive or on Executive's behalf by any third party, except for any right Executive may have to receive an award from a government agency (and not the Company) for information provided to a government agency, or (3) if Executive is forty (40) or over, limits or affects Executive's right to challenge the validity of this Release under the ADEA or the OWBPA.

c. Executive expressly acknowledges that his attorney has advised him regarding, and he is familiar with the fact that certain state statutes provide that general releases do not extend to claims that the releasor does not know or suspect to exist in his favor at the time he executes such a release, which if known to him may have materially affected his execution of the release. Being aware of such statutes, Executive hereby expressly waives and relinquishes any rights or benefits he may have under such statutes, as well as any other state or federal statutes or common law principles of similar effect, and hereby acknowledges that no claim or cause of action against any Discovery Party shall be deemed to be outside the scope of this Release whether mentioned herein or not. Executive also specifically knowingly waives the provisions of Section 1542 of the Civil Code of the State of California, which reads: A general release does not extend to claims that the creditor or releasing party does not know or suspect to exist in his or her favor at the time of executing the release and that, if known by him or her, would have materially affected his or her settlement with the debtor or released party. Notwithstanding the provisions of Civil Code Section 1542 stated above and for the purpose of implementing a full and complete release and discharge of the Discovery Parties, Executive expressly acknowledges that this Agreement is specifically intended to include in its effect all claims that he does not know or suspect to exist in his favor at the time he signs this Agreement.

**d. Executive hereby acknowledges that he is executing this Release pursuant to the Agreement, and that the consideration to be provided to Executive**

pursuant to Section IV(D) of the Agreement is in addition to what he would have been entitled to receive in the absence of this Release. Executive hereby acknowledges that he is executing this Release voluntarily and with full knowledge of all relevant information and any and all rights he may have. Executive hereby acknowledges that he has been advised to consult with an independent attorney of his own choosing in connection with this Release to explain to him the legal effect of the terms and conditions of this Release and that Executive has consulted such an attorney for such purpose. Executive acknowledges that he has read this Release in its entirety. Executive further states that he fully understands the terms of this Release and that the only promises made to him in return for signing this Release are stated herein and in the Agreement in which this Release is incorporated. Executive hereby acknowledges that he is voluntarily and knowingly agreeing to the terms and conditions of this Release without any threats, coercion or duress, whether economic or otherwise, and that Executive agrees to be bound by the terms of this Release. Executive acknowledges that he has been given twenty-one (21) days to consider this Release, and that if Executive is age forty (40) or over, Executive understands that he has seven (7) days following his execution of this Release in which to revoke his agreement to comply with this Release by providing written notice of revocation to the General Counsel of Company no later than three business days following such period.

e. Executive further hereby covenants and agrees that this General Release shall be binding in all respects upon himself, his heirs, executors, administrators, assigns and transferees and all persons claiming under them, and shall inure to the benefit of all of the officers, directors, agents, employees, stockholders, members and partners and successors in interest of Company, as well as all parents, subsidiaries, affiliates, related entities and representatives of any of the foregoing persons and entities.

f. Executive agrees that he will not disparage any Discovery Party or make or publish any communication that reflects adversely upon any of them, including communications concerning Company itself and its current or former directors, officers, employees or agents.

g. Executive agrees to return all Company property and materials, including without limitation, equipment, such as laptop computers and mobile telephones, and documentation, such as files (including all originals and copies), notes, e-mail accounts and computer disks prior to the conclusion of Executive's employment with Company.

5. a. If any provision of this Release is found to be invalid, unenforceable or void for any reason, such provision shall be severed from the Release and shall not affect the validity or enforceability of the remaining provisions.

b. Company and Executive agree that this Release, consisting of four (4) pages, and the Agreement in which this Release is incorporated, constitutes the entire agreement between them. The parties further warrant that they enter into this Release freely.

c. This Release shall be interpreted, enforced and governed by the laws of the State of Maryland without regard to the choice of law principles thereof.



IN WITNESS WHEREOF, I have signed this General Release this \_\_\_ day of \_\_\_\_\_, 20\_\_\_

By: \_\_\_\_\_

Print Name: \_\_\_\_\_

Subscribed and sworn to before me this \_\_\_ day of \_\_\_\_\_, 201\_\_.

Notary Public  
My Commission Expires \_\_\_\_\_

## LIST OF SUBSIDIARIES OF DISCOVERY, INC.

<u>Entity</u>	<u>Place of Formation</u>
2601223 Ontario, Inc.	Canada
Adventure TV Channel Pty. Ltd	Australia
Airtime Sales AB	Sweden
All Music s.r.l.	Italy
AMHI, LLC	United States
Animal Planet North America, Inc.	United States
Animal Planet Televizyon Yayincilik Anonim Sirketi	Turkey
Animal Planet, L.L.C.	United States
Animal Planet, LP	United States
AprodO Development, LLC	United States
AprodO, LLC	United States
Avrupa Spor Televizyon Yayincilik Anonim Şirketi	Turkey
Beacon Solutions, Inc.	United States
Big Sky Cottage, LLC	United States
Bravo TV New Zealand Limited	New Zealand
Cable Program Management Company, G.P.	United States
Canadian AP Ventures Company	Canada
Comida Holdings, LLC	United States
Cooking Channel, LLC	United States
CPMCO Holdings, LLC	United States
DHC Discovery, Inc.	United States
DHC Ventures, LLC	United States
DigitalO, LLC	United States
Discovery (Barbados) Finance Srl	Barbados
Discovery (Barbados) Holdings 2 SRL	Barbados
Discovery (Barbados) Holdings 3 SRL	Barbados
Discovery (Barbados) Holdings SRL	Barbados
Discovery Advertising Sales Taiwan Pte Ltd- Taiwan Br.	Taiwan
Discovery Advertising Sales Taiwan Pte. Ltd.	Singapore
Discovery AP Acquisition, Inc.	United States
Discovery APAC Digital Ventures Pte. Ltd	Singapore
Discovery Asia, LLC	United States
Discovery Asia, LLC, China Branch (Beijing Representative Office)	China
Discovery Broadcasting Ireland Limited	Ireland
Discovery Channel (Mauritius) Private Limited	Mauritius
Discovery Child Entertainment Limited	Hong Kong
Discovery Civilization North America, Inc.	United States
Discovery Communications Argentina S.R.L.	Argentina
Discovery Communications Benelux B.V.	Netherlands
Discovery Communications Bulgaria EOOD	Bulgaria
Discovery Communications Chile Spa	Chile

---

<b><u>Entity</u></b>	<b><u>Place of Formation</u></b>
Discovery Communications Colombia Ltda	Colombia
Discovery Communications Deutschland GmbH & Co KG	Germany
Discovery Communications Europe Limited	United Kingdom
Discovery Communications Holding, LLC	United States
Discovery Communications India	India
Discovery Communications Ltd., L.L.C.	United States
Discovery Communications Nordic ApS	Denmark
Discovery Communications Ukraine TOV	Ukraine
Discovery Communications Ventures, LLC	United States
Discovery Communications, LLC	United States
Discovery Content Verwaltungs GmbH	Germany
Discovery Corporate Services Limited	United Kingdom
Discovery Czech Republic S.r.o	Czech Republic
Discovery Digital (Beijing) Commercial Consultancy Co., Ltd.	China
Discovery Digital Ventures, LLC	United States
Discovery doo Beograd-Stari grad	Serbia
Discovery Enterprises, LLC	United States
Discovery Extreme Holdings, LLC	United States
Discovery Foreign Holdings, Inc.	United States
Discovery France Holdings SAS	France
Discovery G9 Holdings, LLC	United States
Discovery Golf, Inc.	United States
Discovery Health Channel, LLC	United States
Discovery Health North America, Inc.	United States
Discovery Health NS, ULC	Canada
Discovery Health Ventures, LLC	United States
Discovery Holding Company	United States
Discovery Hungary Media Szolgltat Kft	Hungary
Discovery International Holdings LLC	United States
Discovery International Holdings LP	United Kingdom
Discovery International UK Holdings Limited	United Kingdom
Discovery Italia S.r.l.	Italy
Discovery Japan GK	Hong Kong
Discovery Japan Inc.	Japan
Discovery Kids Entertainment Limited	Cayman Islands
Discovery Korea Holdings, LLC	Korea, Republic of
Discovery Korea Networks, LLC	Korea, Republic of
Discovery Latin America Holdings, LLC	United States
Discovery Latin America Investments, LLC	United States
Discovery Latin America, L.L.C.	United States
Discovery Licensing, Inc.	United States
Discovery Lightning Investments Ltd	United Kingdom
Discovery Luxembourg Holdings 1 S.a.r.l.	Luxembourg
Discovery Luxembourg Holdings 2 S.a.r.l.	Luxembourg

---

<b><u>Entity</u></b>	<b><u>Place of Formation</u></b>
Discovery Media Ventures Limited	United Kingdom
Discovery Medya Hizmetleri Limited Sirketi	Turkey
Discovery Mexico Holdings, LLC	United States
Discovery Networks Asia-Pacific Pte. Ltd.	Singapore
Discovery Networks Brasil Agenciamento e Representação Ltda.	Brazil
Discovery Networks Caribbean, Inc.	Barbados
Discovery Networks Denmark ApS	Denmark
Discovery Networks Finland Oy	Finland
Discovery Networks International Holdings Limited	United Kingdom
Discovery Networks International LLC	United States
Discovery Networks Korea Limited	Korea, Republic of
Discovery Networks Mexico S. de R.L. de C.V.	Mexico
Discovery Networks Norge Holding AS	Norway
Discovery Networks Norway AS	Norway
Discovery Networks OOO	Russian Federation
Discovery Networks Sweden AB	Sweden
Discovery Networks, S.L.	Spain
Discovery NZ Limited	New Zealand
Discovery OWN Holdings, LLC	United States
Discovery Patent Licensing, LLC	United States
Discovery Polska Sp. Z.o.o.	Poland
Discovery Productions Group, Inc.	United States
Discovery Productions, LLC	United States
Discovery Romania S.r.l	Romania
Discovery SC Investment, Inc.	United States
Discovery Science Televizyon Yayincilik Anonim Sirketi	Turkey
Discovery Services Australia Pty Ltd	Australia
Discovery Services, Inc.	United States
Discovery Solar Ventures, LLC	United States
Discovery South America Holdings, LLC	United States
Discovery Studios, LLC	United States
Discovery Talent Services, LLC	United States
Discovery Television Center, LLC	United States
Discovery Televizyon Yayincilik Anonim Sirketi	Turkey
Discovery Times Channel, LLC	United States
Discovery Trademark Holding Company, Inc.	United States
Discovery Wings, LLC	United States
Discovery.com, LLC	United States
DLA Holdings LLC	United States
DLG Acquisitions Limited	United Kingdom
DLG Financing 1 Limited	United Kingdom
DLG Financing 2 Limited	United Kingdom
DNAP Networks (Malaysia) Sdn. Bhd.	Malaysia
DNE Music Publishing Limited	United Kingdom

---

<b><u>Entity</u></b>	<b><u>Place of Formation</u></b>
DNI Europe Holdings Limited	United Kingdom
DNI Finance 1 Limited	United Kingdom
DNI Finance 2 Limited	United Kingdom
DNI Foreign Holdings Limited	United Kingdom
DNI German Holdings I Limited	United Kingdom
DNI German Holdings II Limited	United Kingdom
DNI Global LLP	United Kingdom
DNI Group Holdings LLC	United States
DNI Holdings (Jersey) Limited	Jersey
DNI Ireland Holdings 3 Limited	Ireland
DNI Jersey 1 Limited	Jersey
DNI Licensing Ltd	United Kingdom
DNI Netherlands Holdings 1 Limited	Ireland
DNI Netherlands Holdings 2 Limited	Ireland
DNI US Limited	United Kingdom
Dplay Entertainment Limited	United Kingdom
EL-TRADE sp. z o.o.	Poland
Enformasyon Reklamcılık ve Filmcilik Sanayi ve Ticaret A.S	Turkey
ESP Media Distribution Portugal S.A.	Portugal
Eurosport Events Limited	United Kingdom
Eurosport Media SA	Switzerland
Eurosport SAS	France
Eurosportnews Distribution Ltd	Hong Kong
Fix My Life, LLC	United States
Food Network Holdings, LLC	United States
Food Network Magazine, LLC	United States
Full Home Clear Eyes, LLC	United States
GAC Holdings, LLC	United States
Green Content Sp. z o.o.	Poland
Gulliver Media Holdings, LLC	United States
HGTV Magazine, LLC	United States
Hub Television Networks, LLC	United States
Indy Ripple Oasis, LLC	United States
Joyn GmbH (fka 7tv Joint Venture GmbH)	Germany
JV Network, LLC	United States
JV Programs, L.L.C.	United States
Latin America Golf SLU	Spain
Liberty Animal, Inc.	United States
Lifestyle Domain Holdings, Inc.	United States
Lifestyle Newco Limited	United Kingdom
Little Rhodie Home, LLC	United States
Magnolia Discovery Ventures LLC	United States
MDTV Distribution Iberia, S.L.	Spain
Minnetonka Mansion, LLC	United States
Motor Trend Group, LLC	United States

---

<b>Entity</b>	<b>Place of Formation</b>
MyOWN Production Co., LLC	United States
myOWN.com, LLC	United States
Networks Holdings, Inc.	United States
NuprodO, LLC	United States
Ocourses, LLC	United States
Ospecials, LLC	United States
OWN Affiliate Sub, LLC	United States
OWN Digital, LLC	United States
OWN LLC	United States
OWN Productions, LLC	United States
OWN: Oprah Winfrey Network LLC	United States
Palm Retreat, LLC	United States
Patagonia Adventures, LLC	United States
Play Sports Group Limited	United Kingdom
Play Sports Network Limited	United Kingdom
Polish Television Holding B.V.	Netherlands
Polski Operator Telewizyjny sp. z o.o.	Poland
PromO Productions, LLC	United States
Scripps Down Under Pty Ltd	Australia
Scripps Intermediação e Participações do Brasil Ltda.	Brazil
Scripps International Media Holdings, LLC	United States
Scripps Media Sdn. Bhd.	Malaysia
Scripps Networks Interactive, Inc.	United States
Scripps Networks International (UK) Limited	United Kingdom
Scripps Networks Polska sp. z.o.o	Poland
Scripps Networks, LLC	United States
Series With Intent Productions, LLC	United States
Shift Active Media Limited	United Kingdom
ShortyO Productions, LLC	United States
Southbank Media Ltd.	United Kingdom
Spoon Media Inc.	United States
SporTV Medya Hizmetleri Anonim Sirketi	Turkey
STAVKA sp. z o.o.	Poland
Studio Discovery Co. Ltd	South Korea
Super Soul Sessions LLC	United States
Super Soul Sunday LLC	United States
Takhayal for Art Production JSC	Egypt
Takhayal Television FZ LLC	United Arab Emirates
Television Food Network, G.P.	United States
The Living Channel New Zealand Limited	New Zealand
The Representative Office of Discovery Communications Europe Limited in the Republic of Kazakhstan	Kazakhstan
The Representative Office of Discovery Corporate Services Limited in the Republic of Kazakhstan	Kazakhstan
The Representative Office of Eurosport in the Republic of Kazakhstan	Kazakhstan

---

**Entity**

The Travel Channel, L.L.C.  
The Voice TV Norge AS  
There's No Time Like The Crescent, LLC  
TIVIEN sp. z o.o.  
TM-TV GmbH  
TopTV  
Travel Channel India Private Limited  
TVN Digital S.A.  
TVN Media sp. z o.o.  
TVN S.A.  
Ulysses U.K. Inc.  
Urban Retreat, LLC  
Wasu Discovery Consulting (HangZhou) Co. Ltd  
Where Are They Now LLC

**Place of Formation**

United States  
Norway  
United States  
Poland  
Germany  
New Zealand  
India  
Poland  
Poland  
Poland  
United States  
United States  
China  
United States

**Registered Senior Notes Issued Under**

Indenture dated August 19, 2009

**Issuer**

Discovery Communications, LLC

**Guarantors**

Discovery, Inc., Scripps Networks Interactive, Inc.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-231160) and Form S-8 (No. 333-197910, 333-188730, 333-177850, 333-174451, 333-170317, 333-156105, 333-154312, 333-153586) of Discovery, Inc. of our report dated February 22, 2021 relating to the financial statements and financial statement schedule and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP  
McLean, Virginia  
February 22, 2021





**CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
PURSUANT TO RULE 13a - 14(a) AND RULE 15d - 14(a)  
OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED,  
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, David M. Zaslav, certify that:

1. I have reviewed this Annual Report on Form 10-K of Discovery, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 22, 2021

By: /s/ David M. Zaslav

David M. Zaslav

President and Chief Executive Officer

**CERTIFICATION OF CHIEF FINANCIAL OFFICER  
PURSUANT TO RULE 13a - 14(a) AND RULE 15d - 14(a)  
OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED,  
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Gunnar Wiedenfels, certify that:

1. I have reviewed this Annual Report on Form 10-K of Discovery, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 22, 2021

By: /s/ Gunnar Wiedenfels  
Gunnar Wiedenfels  
Chief Financial Officer

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Discovery, Inc. ("Discovery"), on Form 10-K for the year ended December 31, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David M. Zaslav, President and Chief Executive Officer of Discovery, certify that to my knowledge:

- 1 the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2 the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Discovery.

Date: February 22, 2021

By: /s/ David M. Zaslav  
David M. Zaslav  
President and Chief Executive Officer

**CERTIFICATION OF CHIEF FINANCIAL OFFICER  
PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Discovery, Inc. ("Discovery"), on Form 10-K for the year ended December 31, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Gunnar Wiedenfels, Senior Executive Vice President and Chief Financial Officer of Discovery, certify that to my knowledge:

- 1 the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2 the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Discovery.

Date: February 22, 2021

By: /s/ Gunnar Wiedenfels  
Gunnar Wiedenfels  
Chief Financial Officer